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HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1983

REPORT

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

TO ACCOMPANY

S. 1338

together with

ADDITIONAL VIEWS

MAY 23 (legislative day MAY 16), 1983.—Ordered to be printed

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HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1983

MAY 23 (legislative day MAY 16), 1983.—Ordered to be printed

Mr. GARN, from the Committee on Banking, Housing, and Urban Affairs, submitted the following

REPORT

together with

ADDITIONAL VIEWS

[To accompany S. 1338]

The Committee on Banking, Housing, and Urban Affairs, having considered the same, reports favorably a committee bill to amend and extend certain Federal laws relating to housing and community development, and related programs, and for other purposes, and recommends that the bill do pass.

HISTORY OF LEGISLATION

The Subcommittee on Housing and Urban Affairs, has held a series of hearings on legislation and issues pertinent to the Committee approval of this bill.

A hearing on the outlook for housing and mortgage finance was held on February 14, 1983. The Administration's housing and community development legislation for the Department of Housing and Urban Development (S. 644) and general reauthorization issues were the subject of hearings on March 8, 9, and 10, 1983. Hearings on the Administration's legislation for the housing programs administered by the Farmers Home Administration and Indian housing were held on March 23, 1983. The full Committee met on April 13, 1983 and ordered the bill favorably reported by voice vote.

EXPLANATION OF THE BILL

TITLE I.—RENTAL REHABILITATION

Title I provides basic authorization to the Secretary to make rental rehabilitation and new construction grants to states and local governments within a new Section 122 of the Community Development Act of 1974. Grants would be made available to help support the rehabilitation of privately owned real property and, in communities with severe housing shortages, the construction of new rental units.

TITLE II.—COMMUNITY AND NEIGHBORHOOD DEVELOPMENT

Title II reauthorizes the community development block grant and urban development action grant programs for three years. Relatively few changes are made to the programs however requirements for targetting the community development program principally for the benefit of law and moderate income families have been clarified. Two new demonstrations are added to the urban homesteading program and the committee has endorsed a demonstration of activities through voluntary organizations.

TITLE III.—HOUSING ASSISTANCE PROGRAMS

Title III of the Committee bill makes significant modifications to subsidized housing programs administered by the Department of Housing and Urban Development. Faced with continuing rapid growth of federal outlays for housing subsidies, the Committee has directed its attention to improving the operations and efficiency of ongoing housing assistance programs while maintaining the stock of subsidized housing already built.

The two principal initiatives recommended by the Committee are the housing payment certificate program and reform of public housing operations. Housing payment certificates will add a "shopping incentive" feature to the current Section 8 existing housing program. A public housing accreditation commission and new incentives for management improvements will improve the operation of public housing projects. Numerous other changes are also made to housing assistance programs.

THE HOUSING PAYMENT CERTIFICATE PROGRAM

Drawing upon HUD's experience with the current Section 8 existing housing program and the Experimental Housing Allowance Program, a "housing payment certificate program" is created in Title III of the bill. This housing payment certificate program will improve the Section 8 existing housing program by giving very low-income families more flexibility to "shop around" for housing best suited to their needs. If a family leases an apartment at a lower rent than the program payment standard, it can keep any saving. The family is allowed to lease a more expensive unit if it chooses to pay the excess. This shopping incentive will give assisted tenants the same choice between housing and other needs that they would exercise in using their own money. This choice by tenants will constrain the inflationary impact on rents in the current Section 8

program where landlords often just raise rents up to the maximum fair market since tenants get no savings from a lower rent. The shopping incentive feature is the essential element of the Administration's "housing voucher" proposal and has been accepted by the Committee as a way to bring some discipline of market transactions to tenants in the existing housing program.

The housing payment certificate program also will improve the responsiveness of the subsidies to local rental market changes. In the current Section 8 program, fair market rent ceilings are increased automatically by HUD regulation applied around the country. As indicated above, landlords generally just raise rents up to the ceiling each year. In the housing payment certificate program, the local public housing agencies (PHA's) administering the program are given the discretion to adjust assistance payments during the 5 year contract term based on local rental market conditions. These adjustments are paid for by the PHA from an extra 10 percent funding beyond the estimated assistance payments in the first year and from any amounts that become available through higher tenant incomes or through tenants dropping out of the program. The PHA can also use these extra funds to bring more very low income families into the program thus giving the PHA an incentive to hold down assistance increases.

Finally, the new housing payment certificate program will focus assistance on the neediest families. Except for families now receiving subsidies under expiring Section 8 contracts that may be converted to the new program, families entering the program must have very low income (of less than 50 percent of the area median income with adjustments for family size). Local public housing agencies must also give priority to families who occupy substandard housing, are involuntarily displaced, or are paying more than one-half their income for rent.

With regard to the payment standards which set the initial target rent level in the modified certificate program, the Committee believes it is essential that the payment standard be set at a realistic level. If it is too low, tenants will face increasing difficulty in finding standard quality apartments and will, in effect, be forced to pay more than the statutory ceiling of 30 percent of income as the contribution to rent. Consequently, the Committee bill directs the HUD Secretary to establish payment standards on the basis of a formula set forth in a regulation within 60 days after date of enactment that will thus be subject to Congressional and public review. The payment standard must be based on rents of decent, safe and sanitary housing in the local area using recently available data reflecting the rents that 45 percent of families recently moving into apartments have paid for standard quality housing. The HUD Secretary can set a lower figure if factual information regarding rents in apartments actually available for rent supports a determination that the 45 percentile is excessive.

PUBLIC HOUSING ACCREDITATION AND OPERATING SUBSIDIES

The Committee bill contains a major restructuring of the public housing program in order to assure its continuing viability, to enhance the professionalism of public housing authorities, and to add

incentives for management improvements to the system for distributing operating subsidies.

Public housing is the oldest federal housing program for low income people. The President's Commission on Housing noted that the 1.2 million households living in public housing have incomes averaging only 28 percent of median family income. Moreover, public housing accommodates households which are especially difficult to place in the private rental market, including many single-parent, minority, and large families. Because public housing operating subsidies require a separate, annual authorization and appropriation, the cost of the program is evident. Yet, again according to the President's Commission on Housing, the 1981 costs of public housing (debt service plus operating subsidies) were approximately equivalent to the direct Federal subsidy that would have been required for public housing tenants had they been in the Section 8 existing housing program. While costs do vary widely from project to project, public housing costs are not out of line with those of private rental housing.

Through the restructuring program, the Committee intends to meet three objectives:

Establish clear standards for the professional administration of all aspects of management of the program by local public housing authorities;

Deregulate, to the maximum extent consistent with the specific requirements of law, the operation of those public housing projects which are efficiently managed and;

Create incentives for local PHA's to improve management efficiency and reduce operating costs.

The Committee proposes a new system for overseeing the operating of the nearly 3000 local public housing agencies now running public housing. A Public Housing Accreditation Commission is established with 13 members representing housing authorities, local governments, and low-income tenants. The Commission is charged with 3 tasks: to establish standards for accrediting PHA's which are efficiently and professionally managed, to establish and implement procedures for evaluating PHA's against those standards, and to establish remedies or sanctions for PHA's which do not meet the standards and thus do not become accredited. The Commission's proposals for carrying out each of these tasks would be implemented upon acceptance by the HUD Secretary. Finally, the Commission would also make recommendations to the Secretary about specialized training and education for public housing managers and about the distinction between ongoing maintenance activities to be funded by operating subsidies and major replacement items to be funded by discretionary grants from HUD.

The Committee bill provides the legislative vehicle for a reassessment of public housing subject to the overriding concerns that the program provide adequate housing for low income households at the lowest feasible cost to the federal government. The separation of public housing authorities into "accredited and non-accredited" categories will provide substantial deregulation of most authorities while improving professional housing management practices. This separation will permit HUD to focus its attention and resources on troubled authorities, with the intent and purpose of working with

those local agencies to resolve their problems and convert them to accredited status. The goal is to have all authorities become accredited authorities.

The Committee Bill also modifies the current performance funding system for distributing public housing operating subsidies. First, greater certainty of funding levels for PHA's is achieved by requiring that the funding system be specified by regulation before the start of a fiscal year and remain unchanged throughout the year and that adjustments be made to reflect actual inflation rates. Second, housing authority managers would face greater incentives for efficiently managing public housing because the system would allow the PHA to retain cost savings achieved and would remove subsidy payments for vacant housing units.

MISCELLANEOUS CHANGES

Title III also makes numerous other changes to housing assistance programs. These are identified more completely in the section-by-section analysis, but the more important provisions are:

1. New reservations of housing assistance in fiscal year 1984 under the basic programs are limited to $7,651,476,000 budget authority and $504,061,000 annual contract authority. $4,346,310,000 of this could be funded from deobligation and recapture of prior reservations under HUD's projections. The program activity allowed by this total is as follows:

FUNDS PROVIDED IN TITLE III FOR SUBSIDIZED HOUSING, FISCAL YEAR 1984

[Dollars in thousands]

Program element	Units assisted	Annual contract authority	Budget authority
Housing payment certificates:			
Assistance payments	18,876	47,189	235,947
PHA fees	NA	4,719	23,595
Subtotal	18,876	51,908	259,542
Section 8—existing housing:			
Conversions—Section 23, rent supplement, RAP	69,101	198,425	2,976,374
Loan management	5,000	15,000	75,000
Contract amendments	NA	17,000	86,000
Subtotal	74,101	230,425	3,137,374
Section 8—New construction:			
Section 202: Elderly housing	14,000	95,228	1,904,560
Contract amendments	NA	25,000	305,000
Subtotal	14,000	120,228	2,209,560
Public housing:			
Modernization	NA	100,000	2,000,000
Contract amendments	NA	1,500	45,000
Subtotal	NA	101,500	2,045,000
Total	106,977	504,061	7,651,476

2. Other authorizations in Title III are $1,500,000,000 for public housing operating subsidies, $667,800,000 for loans

under the 202 program to finance 14,000 elderly housing units, and $10,000,000 per year through fiscal year 1986 for the associated congregate services program.

3. The Section 8 new construction and substantial rehabilitation programs are repealed except for obligations entered into before fiscal year 1984 and for use of Section 8 assistance to elderly housing financed with 202 program loans. The long-term (20–40 year) contractual obligations and other costly features of these programs have led the Committee to adopt a program of up-front housing grants. Title I of this bill contains the rental rehabilitation and development program as a substitute for the Section 8 new construction programs.

TITLE IV.—FLOOD, CRIME, AND RIOT INSURANCE PROGRAMS

Title IV extends the crime insurance and riot reinsurance program through September 30, 1983. The Committee intends that this insuring authority will be permanently terminated on that date and directs FEMA to inform all participating insurers of this termination. The Crime Insurance program has only 56,873 policies in force and over 71 percent of those policies are concentrated in three of the thirty participating jurisdictions. The state of New York alone holds 58 percent of the contracts in force. The Committee feels that this small level of participation does not warrant a federal program and that state and private solutions can be found.

The Riot Reinsurance Program covered over 300 companies in the 1980–1981 contract year, and this year only 17 companies are participating. This and other available evidence indicates that an adequate private market now exists for reinsurance, and the need for a federal government program has been eliminated.

The Committee has extended the authority for FEMA to make new contracts for flood insurance through September 30, 1985. The authority to continue the mapping studies to provide detailed flood insurance risk maps has not been extended. FEMA originally estimated that the mapping would be completed within a fifteen year period, ending on September 30, 1983. Of the 17,157 communities participating in the program, 7,264 communities are in the regular program and have had the detailed mapping process completed. However, 9,893 communities remain in the emergency phase of the program. The Committee feels that the majority of the remaining areas are not high risk areas and do not require costly and extensive mapping. Therefore, FEMA is instructed to use the Flood Hazard Boundary Maps to determine the risk premium rate for the area. If these determinations are not felt to be an adequate reflection of risk, the rating may be appealed and a detailed mapping study will be required. Restudies will also be done in areas which are in the regular phase and file an appeal or request a restudy for reasons such as substantial development or a natural disaster. The Committee feels that this process will save the Federal government up to $200 million in unnecessary mapping fees and will not threaten the soundness of the insurance program.

The Committee has also authorized a study on the feasibility of expanding the flood insurance program to cover damage or loss which arises from sinkholes.

TITLE V.—RURAL HOUSING

The Committee on Banking, Housing and Urban Affairs, in its review of the Farmers Home Administration's housing programs, has identified three major programmatic objectives. The Committee intends to improve targeting of assistance to the most needy persons and families in rural areas; make it possible to provide less costly housing; and account for the cost and budgetary impact of these programs.

In evaluating the housing problems faced by low income residents of rural areas, it was clear that the benefits of the FmHA programs have not reached very low income persons. The Committee has provided that on a national level at least forty percent of the single family homes financed under Section 502 must be occupied by very low income persons or families. In order to provide a degree of flexibility, the Committee has required that each State make at least 30 percent of the units available to very low income families which is consistent with existing law. In the multifamily housing program, all of the units which are constructed or become vacant must be occupied by low or very low income families. To the extent rental assistance is available, not more than 10 percent of the units constructed before the effective date of this Act may be occupied by low income families. In newly constructed projects only 5 percent of the units may be leased to low income families, and at least 95 percent must be rented to very low income families.

In order to achieve these targeting goals, it will be necessary to make the units more affordable by reducing their cost. The Committee has afforded both builders and borrowers the flexibility to use one of several construction codes. A residential project would be approved if it meets one of the following codes: the FmHA minimum property standards; the HUD minimum property standards for mortgages insured under Title II of the National Housing Act; the standards contained in any of the voluntary national building codes; or in the case of manufactured housing, the standards created from Title VI of the Housing and Community Development Act of 1974 and the installation, structural and site requirements which apply under Title II of the National Housing Act.

The Committee has authorized a Rural Housing Preservation Grant program which would allow states, counties, general units of local government, Indian tribes and private nonprofit organizations to compete for funds to administer a housing rehabilitation program. This initiative recognizes the need to improve substandard housing conditions in rural areas and capitalizes on the cost effectiveness of this means of providing additional adequate housing for very low income housing.

The Section 504 rehabilitation program has been amended so that very low income families may receive a loan, grant or combination loan and grant to improve their residence. The Secretary has been given greater latitude in the type of rehabilitation activities which can be undertaken as he may finance minor repairs which do not necessarily bring a unit up to building code standards. He may also set a maximum amount for rehabilitation activity which would allow for more extensive repairs.

The Committee has also authorized the Secretary to subsidize loans for manufactured housing under Section 502, provided that it meets specific construction, installation, and site requirements and standards generally established by HUD programs. Extension of this program to manufactured housing will further expand the availability of affordable housing to many low income families in rural areas. The Committee recognizes manufactured housing comprises a substantial segment of new home sales each year, especially in rural areas. Nearly 36 percent of new home sales last year were manufactured houses, and sixty percent of those units are found in rural areas. Manufactured housing represents an acceptable, and durable home which appreciates in value at a rate equivalent to that of a comparable site built home. Manufactured housing can also play an important role in providing rental housing. The 1980 Annual Housing Survey estimates that four million people live in manufactured homes on leased land in communities or parks throughout the country, 60 percent of which are in rural areas.

The Congressional Budget Office testified before the Committee that:

> . . . rural housing loan programs involve both near-term expenditures and long term costs that are not apparent in the budget at the time that loan commitments are made. The absence of this information makes it difficult to reach informed judgments regarding the appropriate volume of annual lending, or the desirability of alternative approaches to providing rural housing assistance.

The Committee has responded to CBO's urging to alter present budget practices in order to provide more complete information. Transactions with the Federal Financing Bank in the form of Certificates of Beneficial ownership will be treated as borrowing and will appear on-budget. This will result in a true reflection of the amount of lending done by the FmHA for housing. Although this may increase the budget by between 3 and 4 million dollars annually, it will not affect the on and off budget outlays in any year. In addition, the Committee is not currently provided with any estimates of the subsidy costs associated with the level of lending authority it provides. In order that Congress make an informed decision, the Committee has required that the FmHA submit an estimate of the potential long term obligation for subsidy costs with the submission of the Annual Budget. This measure does not require that funds be authorized upfront for subsidy expenses, but provides a benchmark for Congress to gauge its decisions by.

TITLE VI.—PROGRAM AMENDMENTS AND EXTENSIONS, EXTENSION OF FEDERAL HOUSING ADMINISTRATION MORTGAGE INSURANCE PROGRAMS

Title VI contains the program amendments and extensions of Federal Housing administration mortgage insurance programs and miscellaneous amendments. Highlights of this title include:

Elimination of the requirement that FHA interest rates be set by law;

The single, lump-sum mortgage insurance premium on FHA single family loans;

An increase in the loan-to-value ratio resulting in a smaller downpayment required on FHA loans;

Expansion of the successful Graduated Payment Mortgage program;

Introduction of Adjustable Rate and Shared Appreciation mortgages;

A demonstration program of home equity conversion mortgages to reduce the financial hardships of elderly homeowners;

A demonstration of insuring shell homes for completion by the homebuyer; and

A demonstration program of the feasibility of contracting with private mortgage insurers.

TITLE VII.—MORTGAGE DEFAULT ASSISTANCE

Title VII, the Unemployed Homeowners' Relief Act of 1983, would authorize Federal guarantees of loans when they are necessary to help involuntarily unemployed or underemployed homeowners avoid loss of their homes through foreclosure.

The recession, with its unusual severity and persistence, has plunged hundreds of thousands of hard working families into deep financial crisis. Although now the worst may be over nationally, even optimistic forecasts project that a healthy recovery is still many months away in a large number of areas of the country.

In economically distressed areas, the financial health of mortgage lenders has eroded. Residents in the community have had to draw down their savings to pay living expenses. Businesses and consumers have had to slow down their loan payments. Funds available to a local financial institution have shrunk. Many lenders can thus be forced by short-term legal considerations to take actions, such as home foreclosures, that conflict with the long-term best interest of themselves and their community.

The harsh results of that crisis are soaring rates of mortgage delinquency and foreclosure, which rose to extremely high levels during the first quarter of 1983. In March, the delinquency rate for conventional loans reported by the Federal Home Loan Bank Board, stood at 2.24%, nearly double the average for the previous 10 years. In 1982, more than 185,000 families had their homes in foreclosure, more than at any time since the great Depression.

Tens of thousands of families continue to face the loss of their homes, through no fault of their own and despite great efforts to remain current in their mortgage payments. According to the Center for Real Estate and Urban Economics in Berkeley, over 80% of the recent increase in mortgage delinquencies and foreclosures can be attributed to the high levels of unemployment.

The high rate of foreclosures has become a national problem that calls for an emergency response. The Committee recognizes that the great majority of private lenders have shown an extraordinary degree of forebearance on delinquent loans. Those efforts are to be highly commended and should be encouraged by public policy. The Committee also recognizes that foreclosure, regrettably, may be unavoidable or the most prudent course for some homeowners.

The Committee is convinced that Congress by providing targeted Federal assistance can help tens of thousands of familes retain their homes. These families are now threatened with the loss of their homes even though they have realistic prospects of regaining their employment and income. Title VII of the bill would authorize such assistance in the form of Federal guarantees on loans extended by private lenders under carefully defined circumstances.

The Secretary of HUD, acting through GNMA, would be authorized to guarantee up to $750 million in loans to homeowners who have suffered a substantial loss of income through no fault of their own. Guaranteed loans could be large enough to cover payments for up to 24 months plus 3 months of arrears. Loan proceeds would be deposited in an interest bearing escrow account from which monthly costs of mortgage principal and interest, insurance and taxes would be paid.

The Committee would target the assistance on those homeowners who most need it by limiting the guarantees to those cases in which:

Payments have been delinquent for 3 months;

All other usual remedies have been exhausted;

The default is otherwise unavoidable because of involuntary unemployment or underemployment;

The homeowner had a good credit record prior to losing his job;

There is a reasonable prospect that the homeowner can resume full mortgage payments;

Credit counselling is available to the homeowner;

The mortgage is on a principal residence; and

The original mortgage principal was below the present FHA limits.

The Committee intends that the guaranteed loans be available after all reasonable and customary forbearance measures have been exhausted, including the liquidation of nonessential real or personal property of the borrower.

To insure that private lenders will carefully evaluate the risk of default on the guaranteed loan, they would be required to assume 10 percent of any loss on the guaranteed loan. The loan would bear an interest rate determined by the Secretary of HUD to be reasonable. The rate would reflect the market rate on similar loans after taking into account the reduced risk of loss provided by the Federal guarantee.

A homeowner receiving assistance would be required to pay as large a share of the monthly costs as his resources permit, but no less than 5 percent of the amount due monthly. Repayment of the guaranteed loan would have to begin within 24 months after the loan is made and be completed in the subsequent 12 years.

Once a mortgage assistance loan is guaranteed, if the originator sells the loan to other investors, the loan would also carry a GNMA guarantee of timely payment of principal and interest to those investors. This guarantee, while not increasing the Government's ultimate risk of loss under the program, would make it possible for lenders to convert the loan asset into cash and enable lenders to relieve cash flow problems created by high deliquency rates.

Federal regulatory agencies—the Federal Reserve Board, the Federal Home Loan Bank Board, the Comptroller of the Currency, the National Credit Union Administration Board, and the Directors of FDIC and FSLIC—would be required to take prudent actions to encourage forbearance on defaulted home mortgages and to have mortgage lenders inform homeowners of this assistance when foreclosure is initiated.

SECTION-BY-SECTION ANALYSIS

TITLE I.—RENTAL REHABILITATION

Section 122 (a) provides basic authority for the Rental Rehabilitation and Development Grant program. Authorizes the Secretary to provide modified Section 8 certificates to units of government administering a rehabilitation or new construction program. The certificates are provided to minimize the displacement problems often caused by rehabilitation projects. The certificates are to be provided to families becoming tenants in buildings to be rehabilitated with incomes of less than 50 percent of the median income for the area or to lower income tenants displaced from buildings assisted by this program.

The Secretary is expected to provide a rental assistance certificate for the needs indicated but in amounts no greater than needed to assist the estimated number of units to be so rehabilitated. However, the Secretary should ensure that certificates are provided for rehabilitation projects before providing certificates on the basis of new construction projects.

Subsection (a)(1)(C) provides basic authority for the Secretary to make grants for new construction projects.

Subsection (a)(2) authorizes $850,000,000 for the program as a whole. Grant funds are authorized at $300,000,000 for 1984 with $30,000,000 or 4% of the amount appropriated, which ever is less, available for the Secretary to fund special needs for programs of substantial rehabilitation or new construction. One million dollars is available for the Secretary to provide technical assistance to states and cities to assist in the development of rehabilitation programs that maximize the effect of the federal funding, to improve local programs with poor performance, and to develop the capacity of governments to effectively develop and administer a program of rehabilitation. The use of funds under this section is not limited to the provision of technical assistance in connection with Section 122. $550 million is available for housing payment assistance certificates.

Subsection (2)(b)(1) provides for direct allocation of grant funds to be made to cities of 50,000 or more in population, urban counties and states by formula. The formula composition, which is left to the Secretary's discretion shall use as factors low income renter population, rental market conditions, overcrowding of rental housing, the condition of the rental housing stock and other objectively measurable conditions as required. A state's allocation shall be based on the above factors for population not located in cities of more than 50,000.

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Subsection (b)(2)(A) authorizes the Secretary to establish minimum allocations for direct allocations where a lesser amount would make a program infeasible. When a city's allocation falls below the minimum allocation amount its allocation shall be added in the state's allocation.

Subsection (b)(2)(B) authorizes the Secretary, beginning in FY1985 to make adjustments to allocations 15 percent above or below the formula amount for performance in achieving the low-moderate income benefits objectives of the bill.

The adjustment of a grantee's allocation on the basis of program performance is fundamentally different from past housing programs. Instead of requiring rents at an established level or other regulatory controls, the program uses an incentive system to encourage performance.

Subsection (b)(3)(A) requires a city or a State to submit a program description for the Secretary's approval prior to the receipt of a grant. The description shall describe the proposed program and activities to be assisted, certify that the grantee consulted with the public, show the evidence of the grantee's capacity to undertake a program, the financial feasibility of the program, indicate the selection criteria to be used in selecting projects, the effect of the program on neighborhood preservation, and certify compliance with civil rights and other applicable laws. The Committee intends the application review and evaluation to judge an application on an overall basis.

Because the principal purpose of this section is to expand the availability of affordable and decent housing and most cities can most economically meet this need through a program of rehabilitation, the Committee expects most communities to operate rehabilitation programs. However, the Committee recognizes that in some areas new construction may be necessary to improve the availability of appropriate rental housing. Because new construction is seen as an exception to the regular program, an applicant is requred to meet the specific conditions that make a program of new construction reasonable for that area. Specifically, subsection (b)(3)(B) requires that the Secretary find that an area is experiencing a severe shortage of rental housing, that it has very low vacancy rates, and that a program of other than rehabilitation is needed to improve rental opportunities, or to advance a neighborhood preservation grant. A program of new construction is expected to be operated within the constraints of a yearly grant allocation.

To encourage innovation, full use of available funds, effective program administration, and performance, subsection (b)(3)(C) authorizes the Secretary to make grant awards up to 120 percent of the allocation provided to a city under paragraph 1 to the extent that funds are available. The Committee expects funds to be available where cities and states do not choose to apply for funds or where applications have been denied.

Section (b)(3)(D) requires that at least 70 percent of the assistance to the benefit lower income families but gives the Secretary discretion to reduce the percentage requirement to 50 percent where the grantee cannot feasibly develop a program under a higher percentage.

Subsection (4)(A) gives the Secretary authority to limit allocation of modified Section 8 certificates to the number of units to be rehabilitated by a city or a state. To the extent that authority for certificates is available the Secretary shall make those certificates available on the basis of the number of units to be constructed under the provisions of (d)(1).

Subsection (b)(1)(B) permits the grantee to provide assistance for a period of up to one year for units rehabilitated or developed and requires that all very low income tenants of buildings to be rehabilitated under this program be offered assistance under the modified Section 8 certificate program. To the extent of available authority, housing assistance may be provided to existing tenants with incomes of 50 to 80 percent of area median income at the discretion of the local agency. In no case shall housing assistance be provided to families with incomes of more than 50 percent of median income if the family was not a tenant in a building to be rehabilitated under this section.

Subsection (b)(5) requires the Secretary to review each grantee's progress and performance in carrying out a program as described in its application, in carrying out activities in a timely manner, and in the use of funds in accordance with law. The Secretary may reallocate funds among other grantees where grantees are not performing as expected.

For states that distribute funds to local governments for administration, the Secretary shall review performance in terms of timely distribution, and the state's review of local performance.

The Secretary may adjust, reduce, or withdraw resources as appropriate in accordance with the findings of the reviews. Amounts that become available through action under this section shall be reallocated in the year in which they become available as determined by the Secretary.

Subsection (b)(6) allows grantees to shift up to 20% of its grant funds for the purpose of creating additional housing payment assistance certificates or shift up to 20% of its certificate funds for the purpose of additional rehabilitation or construction grants.

Subsection (b)(7) requires grantees to submit annual performance reports and the Secretary to undertake annual reviews and audits of grantee performance. The subsection also permits the Secretary to adjust, reduce or withdraw resources as review and findings may indicate. Such resources would be reallocated to other grantees in the succeeding final year.

Subsection (b)(8) permits the Secretary to carry forward and reallocated in the next fiscal year any unobligated funds from the current fiscal year.

Subsection (c) establishes the basic requirements of the program. Rehabilitation assistance is limited to residential rental property in low and moderate in some neighborhoods as chosen by the grantee. The rehabilitated units shall meet the housing quality standards established for section 8. Subsection (c)(3) limits the grant provided for rehabilitation or development to 50% of the total cost of the rehabilitation. However, in special circumstances where refinancing costs and the nature of the project increase the rehabilitation costs substantially, the Secretary may approve assistance up to 50 per-

cent of total development costs including the cost of refinancing and acquisition.

Subsection (c)(4) prohibits rental restrictions such as rent control to be placed on properties assisted under this program, except as specifically required by (a)(6)(A) for 20 percent of the units in development projects.

Subsection (c)(5) prohibits discrimination against families receiving rental assistance by owners of units assisted under this program.

Subsection (c)(6) requires that to the maximum extent practicable borrowers shall be personally liable for any new project indebtedness. However, this provision may be waived in cases where the Secretary determines that the application of this requirement will unduly restrict the use of the program, where there are projects involving new construction, where syndication will allow greater leverage of private funds, and in other cases where the Secretary determines that personal liability is not practicable.

Subsection (d)(1) establishes the requirements for programs which include new construction or rehabilitation which is so costly as to be comparable to new construction. Cities are permitted to develop programs which include new construction of rental or cooperative housing provided that the Secretary approves the program and the program can be carried out within the amount of the allocation for that city. Where a city chooses to build new units, that city will be expected to build those units within the restrictive rules contained in Section (d)(2).

Subsection (d)(2)(A) requires an owner of a newly constructed project to enter into agreements to assure compliance with all rules and restrictions of the program and to agree to such conditions as may be required to assure financial feasibility.

Subsection (d)(2)(B) requires that a newly constructed project must maintain 20% of the units constructed in occupancy or be available for occupancy by lower income families for 10 years. This requirement is in direct contrast to the requirement in the regular rehabilitation program where low income occupancy is a performance goal which has an effect on subsequent grants. In the new construction program, low income occupancy is a mandated requirement.

Subsection (d)(2)(C) requires an owner to pass on to tenants reduction in costs due to the assistance provided. It prohibits an owner from refusing to rent to a family solely because the family is receiving assistance under section 8(d) of the Housing Act of 1937. Subsection (d)(2)(c) prohibits the conversion of rental or cooperative projects to condominium ownership unless the low income occupancy requirements of (D)(2)(B) continue to be met.

Subsection (d)(2)(D) establishes additional requirements that limit total mortgage principal amounts to the limits contained in Section 207 of the National Housing Act. It also establishes authority for a grantee to establish a reasonable interest rate and other conditions on projects.

Subsection (d)(3)(E) requires that a new construction project must contain five or more units and must be used primarily for residential purposes.

Subsection (d)(3)(A) requires an owner of a project to repay any assistance received under this section plus interest if the owner

fails to continually meet the low income occupancy requirements for 10 years. In (d)(3)(B) the authority of the previous section is established as a lien against the property.

Subsection (d)(4) establishes that the language of section 11(b) of the Housing Act of 1937 to include housing assisted with grants under this section.

Subsection (d)(5) authorized mortgages on projects assisted under this section to be eligible for insurance under the National Housing Act.

Subsection (a)(6)(A) requires that rents for units to be maintained in low income occupancy be approved by the grantee and that those rents not exceed 30% of the income of a family whose income is ½ the median income in the area.

Subsection (d)(5)(B) provides that rents submitted for approval under (d)(5)(A) will be deemed to be approved if the grantee has not acted within 60 days. It further provides that a grantee cannot place restrictions on any of the rents for units not maintained for occupancy for low income families under subparagraphs (A) and (B).

Subsection (d)(6)(c) indicates that state or local rent controls may not be applied to structures assisted under this section. However, generally applicable program rules governing assistance programs other than those authorized under this section shall not be preempted by this subsection.

Subsection (e)(1) authorizes states to administer grants not directly administered by cities under subsection (b)(2)(A). A state's grant shall be used for areas not administering their own grants but not in areas which are eligible for assistance under Title V of the Housing Act of 1949. Under this section a state may administer its own program or distribute resources to eligible local governments. A city with a population over 50,000 may enter into an agreement with its state to have the state administer its program on its behalf.

Subsection (e)(2) makes the state-run program optional, with HUD administering the resources where states choose not to administer a program. HUD administration may include cities over 50,000 population in that state which choose not to administer their own program.

Subsection (f) requires the Secretary to establish regulations governing relocation payments and standards.

Subsection (g) prohibits the use of any federal funds under this program for the payment of administrative expenses.

Subsection (h)(1) requires the Secretary to establish regulations which support national historic preservation objectives by requiring rehabilitation that would meet historic preservation standards for historic buildings or by providing the Advisory Council on Historic Preservation an opportunity to comment.

Subsection (h)(2) exempts projects from NEPA requirements beyond those required under the CDBG Act.

Subsection (i) defines grantee for this program to be equivalent to the use of the term in the CDBG Act of 1974. It also permits the formation of consortia of geographically proximate units of general local governments to apply for assistance on behalf of their members. This subsection further permits consortia whose combined population exceeds 50,000 to be treated as an eligible city.

Subsection (b) and (c) makes conforming amendments for the changes contained in this section.

Subsection (d) provides: In the case of a mortgage insured under Section 223(f) of the National Housing Act on a property which is eligible for rental rehab grants, Section 244 National Housing Act coinsurance includes provisions that—

(1) insurance benefits equal the sum of (A) 90% of the mortgage on the date of institution of foreclosure proceedings (or on the date of acquisition of the property otherwise after default), and (B) 90% of interest arrears on the date benefits are paid: (2) the mortgagee remit to the Secretary 90% of any proceeds of the property, including sale proceeds, net of the mortgagees actual and reasonable costs related to the property and the enforcement of security; and (3) payment of benefits be made in cash, unless the mortgagee submits a written request for debenture payment. No commitment for insurance under this authority may be issued on or after October 1, 1985. (sec. 7(a))

Subsection (e) provides: In the case of any purchase or refinancing of a property eligible for rental rehab grants under Section 223(f) of the National Housing, Secretary may—(A) include rehabilitation costs of not to exceed $20,000 per unit, with up to 25% more for specific properties where cost levels so require; (B) permit subordinated liens securing up to the full amount of mortgage financing provided by State or local governments or agencies thereof; and (C) pay benefits in cash unless the mortgagee submits a written request for debenture payment. (sec. 7(b))

Subsection (f) makes conforming amendments in accordance with the foregoing Section.

TITLE II.—COMMUNITY AND NEIGHBORHOOD DEVELOPMENT

Section 201: Authorizations

Section 201(a) amends section 103 to authorize no more than $3,966,000,000 to be appropriated for each of the fiscal years 1984, 1985 and 1986 for community development block grants and urban development action grants.

Section 201(b) amends section 107(a) by providing that of the total amount appropriated under Section 103 for each of the fiscal years 1984, 1985 and 1986 not more than $100,500,000 may be set aside in the Secretary's discretionary fund for grants under subsection (b). Of this set aside, $50,000,000 for each year must be made available for grants to Indian tribes.

Section 201(c) amends section 119(a) to provide that of the $3,966,000,000 authorized under section 103, not more than $440,000,000 for each fiscal year is available for urban development action grants.

Section 202: Objective of program and use of funds

Section 202 amends section 101(c) by providing that each grantee's program must also meet the objective of the title i.e. that the grantee's program must principally benefit lower moderate income persons.

Section 202(b) amends section 104(b)(3) to further reinforce the principal benefit test by overlaying the so called three-pronged test

language for project eligibility with the requirement that the use of funds taken as a whole, over a period specified by the grantee of not more than three years, must principally benefit persons of low and moderate income.

Section 203: State small cities program

This section deletes the 10% state match or buy in provision from the certification requirements imposed on states operating the small cites block grant. Experience has shown that participating states have exceeded this requirement therefore making its continuation an unnecessary paperwork burden.

Section 203(b)(1) requires a state electing to run the small cities block grant after FY 1984 to permanently run the program as long as it continues to be authorized. This provision does not mandate total state administration but rather minimizes the possibility, under the present law, that a state could elect in one year to administer the program and elect not to administer it in the succeeding year. It is the Committee belief that states, as they gain additional experience with this program, will have no difficulty assuming permanent responsibility for its administration in the future.

Section 203(b)(2) provides that the Secretary shall administer the small cities program in states where the state government elects not to participate.

Section 203(c) is a conforming amendment.

Section 203(d) permits states to withhold a larger share of funds to cover administrative expenses in running the small cities block grant. Beginning in FY 1984, a state may deduct the first $100,000 of its expenses from grant funds and then 50 percent of any additional expenses in excess of $100,000, provided the additional amount in excess does not excess 2 percent of the total grant amount. The Committee recognizes that many states running this program are approaching the post review and evaluation process which entails considerable administrative expense. Since the Committee places emphasis on the quality of the review process, it believes additional funds are warranted to support this responsibility.

Section 203(e) amends section 106(d)(3) by deleting subparagraph (c). The amendment requires that any amounts allocated for use under paragraph (1) which are not received by the state for any fiscal year because of a failure to meet the requirements section 104 (a) or (b), or which become available as a result of actions against the state under the section regarding the performance report for the remedies for noncompliance will be added to the amounts allocated to all states for the succeeding fiscal year. Funds received as a result of actions against units of general local government in nonentitlement areas of the state or as a result of the closeout of a grant made by the Secretary in nonentitlement areas will be added to the amounts allocated to the state in the same fiscal year that the funds become available. If the state does not receive a grant in that year, the amount will be added to the amount allocated to all states for the next fiscal year. This provision is intended to add an incentive for the proper oversight and management of the activities undertaken with CDBG funding. This does not allow the state or unit of general local government to receive the same funds again despite its mishandling of the alloca-

tion. The Committee, in adopting the change, intends that reallocated funds be made available to localities in a timely manner and not used to reduce a future request for appropriations.

Section 204: Pubic services

Section 204 provides a permanent waiver to cities whose public services expenditures exceed the 10 percent limit is current law. The allowable amount permitted under this waiver may not exceed the greater of the dollar amount or the percentage of its FY 1983 CDBG grant which was allocated to public services under previous waivers. This amount becomes a ceiling in subsequent fiscal years and in no case may it be calculated on the basis of any funds received under or made available by Public Law 98–8, the so called emergency jobs legislation.

Section 205: Amendments to statements of activities

Section 205 requires that any grantee modifying or amending its statement of activities in a fiscal year must subject the amendment or modification proposal to the same public notice and comment procedure applicable to the original program description under Section 104(a)(2) of the Act.

Section 206: Lump-sum drawdown

Section 206(a) slightly changes the rehabilitation program lump-sum drawdown process of Section 104(g)(1) of the Act by requiring that substantial disbursements of the amount drawn down and placed in a revolving loan fund must occur within 180 days after receipt of the drawdown from Treasury. It is the Committee's intention that grantees not "pack" funds in bank accounts for long periods earning interest without the intended rehabilitation activity commencing expeditiously. This should present no difficulty to communities which plan the execution of their rehabilitation programs well and can time receipt of the drawdown consistent with the start up of their programs. "Substantial disbursements," while not tied to any fixed quanitity or percentage of the funds in the revolving loan account, should be taken to mean that the grantee has begun to make a significant number of its planned loans on a regular basis.

Section 206(b) provides for conditions under which a grantee may receive payment of its block grant allocation or portion thereof on an advance basis rather than on the usual reimbursable basis. The Committee believes that communities should be enabled to make efficient and effective use of block grant funds appropriated by Congress. Under certain circumstances, a lump-sum drawdown may be necessary to expedite a project, make a project feasible, leverage private financing, or otherwise make project implementation more effective or efficient. Therefore, the Committee believes that the lump-sum drawdown should be available to grantees as a management tool but only to facilitate the achievement of specific, identified local community development objectives. The Committee intends that communities be precluded from using the lump-sum drawdown simply to earn interest income from the investment of unused block grant funds.

Subsection (b) therefore permits a community to receive a lump-sum drawdown when that community determines the payment is necessary to help finance, make feasible or accelerate implementation of certain economic development projects. Grantees would have discretion to decide when the lump-sum drawdown is necessary, and HUD would be expected to facilitate the local decision. Benefits of the lump-sum drawdown, including any interest earned, would have to accrue to the project for which it was received. To be eligible for a lump-sum drawdown, a project would have to be included in the community's current statement of activities and be carried out by public or private non-profit entities. Eligible activities could include:

Acquisition of real property;

Acquisition, construction, reconstruction, rehabilitation, or installation of:

(1) public facilities, site improvements, and utilities, and

(2) commercial or industrial buildings and other real property improvements; and planning.

The lump-sum payment, together with any interest earned, would have to be expended for the specified project within two years.

Section 207: Review and evaluation

Section 207 amends section 104(d) of the Housing and Community Development Act of 1974 to require that the grantee submit a performance and evaluation report to the Secretary regarding their activities along with an assessment of the relationship of the activities to the objectives of the title and those submitted in the statement of activities under the requirements of subsections (a) and (b)(3). Section 207 also requires that this report be available to the citizens in the grantee's jurisdiction. The grantee will determine the manner in which and times when this report will be available. The report should indicate the program's accomplishments, the type of changes in the individual program objectives, how the program should be changed as a result of the grantee's experience, and an evaluation of who benefited directly from the program. The Secretary should encourage and assist national associations of entitlement grantees and states to develop and recommend uniform record keeping, performance reporting and evaluation reporting requirements for their respective groups. These recommendations should be made within one year after the enactment of the Housing and Community Development Act of 1983 and contingent on the Secretary's approval and consultation with the beneficiaries, should be established for use by the grantees.

The Committee's clear intention is to substantially strengthen the qualitative character of the post grant evaluation process in order that this report become not just a measure of compliance with the requirements of the program but also a tool by which a grantee can objectively measure its progess toward its community development goals, inform its citizens of that progress and amend its program or develop new goals in the future. It is also designed to underscore the importance of a grantee's adherence to the primary benefit objectives of the CDBG program and to encourage the grantee the extent practicable to take better and measureable ac-

count of how its programs directly as well as indirectly benefit both low and moderate income persons. Finally, it permits organizations representing grantees to become more directly and actively involved in helping to shape the evaluation and reporting process. The Committee particularily wants to encourage work already well underway by the Council of State Community Affairs Agencies to develop a reporting and evaluation process for use by state governments administering the small cities block grant.

Section 208: Guarantee program

Section 208 amends the Community Development Block Grant loan guarantee program to ensure that communities first seek financing without the use of a HUD guarantee. The Committee believes that local communities should be given the administrative tools they need to include larger projects in their community development plans and to carry out their plans expeditiously. The loan guarantee program is therefore retained but limited to use in those circumstances where the guarantees are necessary to permit timely execution of program plans.

This section is intended to encourage communities to leverage private financing for eligible community development projects. The Committee expects the Secretary to require communities to certify that they have made a good faith effort, consistent with timely project execution, to obtain financing without the Federal guarantee. However, the Committee does not intend that communities be subjected to an overly burdensome or time consuming requirement to prove that, absent the guarantee, financing could not be obtained, or the project could not proceed.

Section 209: Urban development action grants

Changes to the UDAG program are few in number and primarily intended to increase participation by cities under 50,000 population in the program.

Section 209(a) provides a $2 million authorization for technical assistance grants to states or their agencies, state associations of municipalities, or university run municipal technical advisory services. These institutions are all in a unique position to assist small communities prepare applications, negotiate deals and otherwise move through the competitive process. This provision is designed primarily to permit the cited institutions to play a direct and active role on behalf of the small community. Funding under this section is designed largely for skill building and educational programs, not necessarily to support administrative structures in the institutions.

Section 209(b) permits geographically proximate communities and their non-urban counties to form consortia which can submit single UDAG applications on behalf of its members. Eligibility criteria however, remain the same as if a single community were applying. The consortium is to be treated as a single entity in determining whether it meets the requirements of the programs.

Section 209(c) This amendment establishes the Committee's intent that the UDAG program continue to be administered as an open, uniform national competition that awards Federal assistance where it will do most to create jobs, leverage private investment

and strengthen the economies of distressed communities. A distinguishing strength of the UDAG program is the consideration and refinement of each project application in competition with all others from across the country. A national competition with a consistent review process enables the program both to achieve the maximum public benefit at the least cost in Federal expenditure and to assure private investors of prompt consideration of proposed projects. The Committee is concerned by reports of plans to prevent communities from having their UDAG applications considered by the national underwriting office until their regional office considers the application to be complete. No area or regional office of HUD should have authority to delay or preclude consideration of an application for assistance by the Secretary in the national UDAG competition.

The effectiveness of this competition depends upon the existence of an integral team of UDAG underwriting specialists that is adequately staffed, highly competent and experienced in private development. The Committee encourages the Secretary to enable HUD area offices to provide local communities with nearby technical assistance in the preparation of UDAG applications. However, the Committee firmly believes that any expansion of technical assistance to local communities should not come at the expense of the quality or staffing of the UDAG underwriting team that administers the national competition.

Section 209(d) adds the concept of the neighborhood statistics area, as defined by the U.S. Bureau of the Census, to the list of subcity or urban county areas which may become the focus of UDAG eligibility. Its addition to the Act and the language of 209(e) recognizes among other things, that many less economically distressed counties may have within their boundaries, communities which historically and even geographically are recognized as having the community identity and attributes of a municipality save the fact that they are unincorporated. Through this additional census definition, additional focus can be brought to bear on such places which in fact have economic conditions rendering them eligible for UDAG assistance.

Section 210: Eligible CDBG activities

Section 210(a) would amend section 105(a) of the Housing and Community Development Act of 1974 to make clear that all public facilities, with the exception of buildings for the general conduct of government, are eligible for block grant funding. Title I currently has two provisions dealing with public facility eligibility. Section 105(a)(2) originally purported to be an exclusive listing and contains restrictions on items that are eligible. For example, fire protection facilities are only eligible if they are located in or serve designated community development areas. However, section 105(a)(14), as amended by section 309(f)(5) of the Omnibus Budget Reconciliation Act of 1981, made "public facilities" eligible without restriction.

This proposal would eliminate the restrictions in section 105(a)(2),thus clarifying public facility eligibility. It would also make clear that facilities for the general conduct of government are not CDBG eligible. This exclusion is consistent with general

Federal policy excluding general governmental expenses from eligibility for Federal grant assistance.

Section 210(c) is intended to encourage the development of innovative or prototypical uses of CDBG funds by removing some of the uncertainty of a project's eligibility prior to the expenditure of funds. Under this provision, the Secretary can issue an advisory opinion for such a project on request of a grantee and that opinion would protect the project's eligibility in a post grant review or audit unless the grantee materially changed the nature of the project on which the opinion was based. This provision is not meant to unleash a wholesale run on the Secretary's office for opinions on any questionable project. Rather, it is designed to encourage the imaginative design of innovative projects which can serve as prototypes for other grantee's programs.

Section 211: Repealers

Section 211(a) would repeal the Rehabilitation Loan Program contained in section 312 of the Housing Act of 1964. This Program authorizes direct loans to property owners and tenants to finance the rehabilitation of residential and business properties.

These functions are eligible for funding under a number of existing eligible activities in the Community Development Block Grant Program and Title I of the Committee proposal.

For example, section 105(a)(4) includes as an eligible activity the rehabilitation of buildings and improvements, including the financing of public or private acquisition of privately-owned properties for rehabilitation and the rehabilitation of those properties. Section 105(a)(14) provides that block grants may be used, among other things, to finance the rehabilitation of commercial or industrial buildings or structures and other commercial or industrial real property improvements. Finally, section 105(a)(15) allows block grants to be used for a wide range of rehabilitation activities undertaken by neighborhood nonprofit groups, local development corporations and minority-enterprise small business investment companies. In addition, special funding for rental rehabilitation is proposed in the Department's Rental Rehabilitation initiative. In light of these existing and proposed authorities, continuation of the Section 312 Program is no longer desirable.

The proposal would, however, retain provisions of section 312 concerning the creation and uses of the program's revolving fund. The provisions would be retained to ensure that funds for servicing and liquidating section 312 loan contracts would be available. Unused funds would revert to the Rental Rehabilitation and Development Grant program in Title I.

The provision also would make clear that the monies in the revolving fund for liquidating programs may be used for necessary expenses (including the use of private contractors) for servicing (including protection of security) and liquidating section 312 loans.

Section 211(b) would repeal the Surplus Land Program contained in section 414 of the Housing and Urban Development Act of 1969. Section 414 permits the General Services Administration to transfer surplus Federal real property to HUD and the Department of Agriculture for sale or lease at fair value for use for predominantly low- and moderate-income housing.

Since its inception, this program has been infrequently used. Fourteen properties have been transferred since 1970. Nine additional properties are in the pipeline. This limited activity over such a long period does not justify the costs involved—staff, travel, etc.—in maintaining the program. Moreover, the program is administratively inefficient, since it interjects HUD and FmHA between GSA and the ultimate purchaser/lessee of the property involved.

In addition to repealing section 414, this proposal would permit HUD and FmHA to dispose of surplus property after the effective date of this Act if either Secretary had requested GSA to transfer the land prior to the effective date of this Act. This is necessary to assure that adequate time is afforded the Secretaries to complete processing of projects in the pipeline at the time of enactment of the 1984 legislation. The Committee urges GSA to make prompt decisions regarding any transfers requested by HUD or FmHA.

Section 414 presently provides that land conveyed to a private entity will revert to the United States if it is used for other purposes within 30 years (20 years with Federal approval) after its transfer for use as low-and moderate-income housing. The repealer specifically provides that this provision will continue to be in force and effect for all properties transferred pursuant to section 414 to which it applies.

Subsection 211(c) would repeal provisions of the Urban Renewal, Open Space Land and Neighborhood Facilities Programs in order to reduce Federal involvement in decisions which are are appropriately made at the local level.

Paragraph (1) of subsection (c) would repeal section 106(g) of the Housing Act of 1949. This provision requires localities to obtain a transient housing study before an Urban Renewal Plan can provide for the construction of hotels or other transient housing in the Urban Renewal area. The study is to assure that there is a need for this type of housing in the area. This requirement would be deleted, since the decision concerning whether to permit transient housing is one that should be made by local authorities who are most familiar with local zoning and marketing conditions.

Paragraphs (2) and (3) of subsection (c) would eliminate provisions in the Open Space Land and Neighborhood Facilities Programs which prohibit, without Federal approval, the conversion of land or property obtained with assistance under the programs for uses other than those intended at the time the grant was made. These changes would remove cumbersome restrictions and give the locality discretion in determining the appropriate use of its land or property, and would thereby promote the effort to decentralize the decisionmaking process and speed its return to local control. The locality in which the land and/or property is situated is best able to determine what is the most appropriate use of its resources and whether or not a conversion to another resources land whether or not a conversion to another use is consistent with its needs and objectives.

Specific provisions to be repealed include:

Section 703(d) of the Housing and Urban Development Act of 1965. This authority prohibits a conversion in the use of neighborhood facilities during a 20-year period following the grant,

unless HUD approves the conversion based on the finding that the conversion is in accordance with the then-applicable program of health, recreational, social, or similar community services in the area, and is consistent with comprehensive planning for the development of the community in which the facility is located.

Section 704 of the Housing Act of 1961. This provision prohibits a conversion of open space land to uses not originally approved by HUD unless HUD approves the conversion under regulations requiring findings that (1) there is other comparable land available for substitution; (2) the conversion is needed for orderly growth and development,; and (3) the conversion is in accord with the comprehensive plan for the urban area.

The second sentence of section 706 of the Housing Act of 1961, which gives the HUD Secretary general authority to deny approval of the conversion of land for which a grant was made to acquire interests to guide future urban development.

Section 212: Miscellaneous amendments

Section 212(a) would amend section 102 of the Housing and Community Development Act of 1974 to substitute OMB for the Department of Commerce as the entity which designates Metropolitan Statistical Areas and makes other determinations for purposes of the Community development Block Grant Program.

This is a technical correction. The responsibility for establishing MSA's and their central cities is now with OMB, as is the responsibility for establishing the criteria for the Secretary to use in determining the extent of poverty. This transfer of functions from the Department of Commerce to OMB was made pursuant to Executive Order 12318, issued on August 21, 1981.

Section 212(b) amends section 102(a)(4) by providing that those entities which were defined as "metropolitan cities" until the decennial census of 1980 indicated that the population of the city was less than 50,000 shall continue to be considered metropolitan cities until September 30, 1984.

Section 212(c) protects the entitlement status for a one year period for cities once designated as a central city of an MSA even if the MSA ceases to exist or some other city is designated as the new central city of the MSA.

Section 212(d) permits a central city which fell below 50,000 population in the decennial census to enter an urban county three year funding cycle prior to the time that the current three year cycle terminates. This provision eases the impact of loss of entitlement eligibility for cities whose population no longer qualifies them for that status.

Subsection 212(e) amends section 104(a)(1) of the Act to require grantees in the Community Development Block Grant program to include in their proposed and final statements information on the use of funds made available in previous years and the relationship of such uses of funds to the community development objectives identified by the grantee. The requirement is limited to funds made available subsequent to the program amendments enacted by the Omnibus Budget Reconciliation Act of 1981.

A cardinal principle of a block grant is the accountability of recipients to their citizens for their performance in meeting program objectives. Section 104(a)(2)(B) currently requires that grantees publish a proposed statement of community development objectives and projected use of funds in such manner as to afford affected citizens an opportunity to comment, among other things, on the grantee's community development performance. However, the statute currently does not prescribe that the content of the statement include a report on previous activities. The amendment is intended to fill this gap and conforms this aspect of the program to the requirements generally applicable to other block grant legislation pursuant to Title XVII of the Omnibus Budget Reconciliation Act of 1981.

Subsection 212(f) amends section 106(b) of the Act to provide that, in computing the entitlement amount for metropolitan cities and urban counties which have formed consolidated governments, the allocation shall be equal to the sum of the amounts the metropolitan cities and the balance of the consolidated government (treated as an "urban county" for this purpose) would have received if they had not consolidated. The computations would only be undertaken where data are available from the Census Bureau. Further, the amendment would only apply to consolidations which take place on or after October 1, 1983 and only to consolidations which incorporate all metropolitan cities which received an entitlement grant in the year before the consolidation and the entire urban county which received a grant in such year.

The current Community Development Block Grant (CDBG) fund allocation system can serve as a disincentive for local governments (cities and counties) to form consolidated governmental units. As an example, the population growth in the outlying part of the county would probably offset the growth lag in the core city, resulting in little or no growth lag for the consolidated government as a whole. Since population growth lag greatly affects the CDBG formula outcome, this would likely mean the loss of the benefit the metropolitan city would otherwise receive through its lag. Therefore, the grant that a consolidated government would receive would be less than the sum each individual entity now receives. This result discourages consolidations.

The Department believes that the CDBG program fund allocation system should not discourage local decisions to form consolidated governments. The proposed amendment would assure that consolidation would not reduce the total available for the consolidating governments, and, therefore, not be a disincentive.

Section 212(g) amends section 106(c)(1)(B) to clarify that in the instance that a city has funds withheld, they may not receive any portion of the funds when such funds are reallocated in the subsequent fiscal year.

Section 212(h) amends section 106(f) of the Act to allow for a pro rate increase of all metropolitan city and urban county entitlement amounts if the formula allocation system fails to distribute all amounts available. This technical proposal is similar to the present pro rata reduction feature, which is applied in the event funds are insufficient to meet formula allocations. Technical changes are also made to this latter provision to clarify its coverage.

The amount of an entitlement grant is determined by a dual formula which consists of population, extent of poverty and overcrowded housing on the one hand, and extent of poverty, age of housing and growth lag on the other. For each element (except growth lag), the value for each entitlement grantee is divided by the value for all metropolitan statistical areas (MSA's). Since MSA's encompass areas in addition to metropolitan cities and urban counties, the value derived from the sum of the ratios for each formula, considered separately, is always less than 1. It is therefore possible that the sum of all entitlement shares can amount to less than the amount of funds available for allocation to entitlement cities and counties. This possibility can be expected to increase as a result of recent criteria revisions which will incorporate additional nonentitlement areas within MSA's.

This technical change in section 106(f) is proposed in anticipation of such an event, and provides a mechanism to assure allocation of all funds if the need should occur.

Section 212(i) would amend section 107(b)(4) of the Act to clarify HUD's authority to award grants, cooperative argeements or contracts to a variety of qualified groups to provide technical assistance to CDBG and UDAG grantees.

A recent opinion of the General Accounting Office (GAO) has clouded HUD's legal authority to award cooperative agreements to many of these organizations. The GAO opinion results from the application of the Federal Grant and Cooperative Agreement Act of 1977 to HUD's technical assistance program. Specifically, GAO found that the statement in the last sentence in section 107(b)(4), that the HUD Secretary can provide technical assistance ". . . directly or through contracts . . ." with certain intermediary groups, takes arrangements between HUD and those groups outside the coverage of section 6 of the Federal Grant and Cooperative Agreement Act of 1977, which prescribes when the use of cooperative agreements is permissible. GAO concluded that the arrangements do not qualify as cooperative agreements because GAO viewed such arrangements only as a substitute for the provision of technical assistance "directly" by HUD staff and, therefore, are primarily for the direct benefit of the Federal Government and only incidentally for the benefit of the grantees.

The Department does not believe that the intent of section 107(b)(4) should be read so narrowly. In order to remove any question, this proposed amendment would clarify HUD's authority to provide technical assistance to such intermediaries in the most expeditious and cost-effective manner, and would facilitate HUD's authority to assist qualified groups to provide technical assistance on a broader basis without designation by the units of general local government being assisted by the group.

Section 212(j) amends section 112 by providing that a unit of local government may retain income earned from a grant made under Section 112(a) or from a state, if the income was made after the funds were disbursed by the unit of general local government and they agree to use the earnings for eligible community development activities.

Section 212(k) contains a technical change to section 116(b) of the Act to make clear that the deadline established by the Secre-

tary for submission of statements required by section 104(a) shall be for, but not necessarily in, the fiscal year for which funds are made available. As a general matter, the overwhelming majority of statements are submitted within the same fiscal year for which funds are appropriated. But in a few cases it may be desirable to provide flexibility in establishing the deadline for States and entitlement communities. Such flexibility could be most pertinent in instances where funds are appropriated very late in the fiscal year, newly eligible cities or urban counties are participating in the entitlement mode for the first time, or States are gearing up for initial administration of the Small Cities Program.

Section 212(l) amends section 119(i) providing that after FY 83, any UDAG funds set aside for small cities which remain unobligated for 2 succeeding fiscal years may be made available for metropolitan cities and urban counties.

Section 213: Urban homesteading

Section 213(a) would authorize $17 million for the Urban Homesteading Program for FY 1984, and such sums as may be necessary for the program for FY 1985.

Subsection (b) contains a series of amendments to permit HUD and the governmental entities carrying out urban homesteading programs to charge consideration in connection with the transfer of homestead properties to the entities and to the ultimate owner-occupants. Existing law requires HUD to transfer properties to local entities without payment, and requires conveyance of the property to the homesteader to be "without substantial consideration."

These amendments recognize the fact that free transfer is not always necessary to successful homesteading. Thus, HUD would be given discretionary authority to set a transfer price for individual homesteading properties at a level conducive to attracting homesteaders, while at the same time stretching scarce Federal resources over more homesteading properties. States and localities would be free to charge whatever consideration they deem appropriate for these properties, subject to the requirement that half of their "gain" would have to be refunded to HUD.

Subsection (c) would authorize three new demonstration programs. In the first, HUD is to demonstrate the feasibility and desirability of using a variety of homesteading and related techniques to encourage the reuse of HUD-owned multifamily properties for primarily residential use, in which the dwelling units would be under a cooperative or condominium form of ownership. The Secretary would transfer suitable properties to the State or local government, which would be responsible for managing the disposition and rehabilitation of the property at the local level. The transfer would include such terms and conditions as would be agreed between the Secretary and the responsible agency, including the right of the Secretary to assure that such use in fact occurs. The program would concentrate on the transfer of properties with approximately 30 units.

The program would be designed to spur local interest in dealing with deteriorated multifamily housing stock in creative and innovative ways. Among other things, HUD would encourage new ap-

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proaches to multifamily homesteading, such as "condosteading." "Condosteading" would permit homesteaders to build equity, and could be used to encourage people of middle income to invest and live in deteriorated buildings and neighborhoods. HUD would also encourage creative financing techniques for rehabilitation, which would result in the maximum leverage of public funds.

The Budget assumes participation by up to 15 localities and the transfer of at least 15 properties, with an average acquisition price of $200,000 (30 unit properties at $6,500 per unit average). Since the Department intends to vary the level of subsidy for property acquisition by requiring a down payment or equity commitment by the homestead entity, the total number of transfers could increase by as much as 50 percent.

Finally, the proposal would authorize the use of homesteading funds for technical assistance in connection with the demonstration program consistent with current authority under the single family Urban Homesteading Program.

In the second demonstration, the Secretary must use up to $4,400,000 of budget authority to implement a program demonstrating the feasibility of providing assistance to lower income families so that they can rehabilitate a conveyed property. The amount of assistance would be based on the designated payment standard for the area and should be used to reduce the debt service on a rehabilitation loan. The assisted family may not make a monthly payment on the loan, the mortgage or other housing costs, which is less than the minimum payment that the family would make under section 8.

In the third demonstration, the Secretary is to use up to $5,000,000 of the amount appropriated for this section to determine the feasibility of assisting state or local governments or their agencies to purchase real property improved by a one to four family residence which is not occupied, is designated by a state or general unit of local government for use in a single family homestead program, and will be conveyed to a low or moderate income individual or family, provided that they agree to repair all substantial defects within one year from the date of conveyance, meet applicable local building code standards and make the property their principal residence for at least five years. The Secretary should give preference to demonstrations that involve the acquisition of properties acquired by the city because of tax foreclosure. The Secretary is required to submit a report to Congress not later than March 1, 1985, which would evaluate the success of the demonstration as a means of increasing the stock of housing available for the homesteading program and include recommendations for improving the program.

In general, the Committee wants to increase lower income home ownership opportunities and believes the urban homesteading program may be one of the most cost effective ways to achieve this goal. The demonstration programs are designed not only to test new ideas but to find ways to increase the stock of housing available to the homesteading program. The Committee expects the Secretary to carry out all three demonstrations expeditiously and to report to Congress with recommendations at the earliest opportunity.

The Committee commends the Department for the formation of its district heating/cooling program and hopes that the program will continue in FY 84. Twenty eight cities were awarded Phase I feasibility studies in FY 82 and at least three of those cities have received Phase II awards so far in FY 83. Initially over 100 cities applied for assistance in studying district heating/cooling and the Committee expects the program to complete Phase II and begin a new round of Phase I grants in FY 84 to respond to this demand.

District heating/cooling, using steam or hot water, is the major energy infratructure of many cities. If existing systems are not adequately maintained and rehabilitated these cities could face eventual abandonment of their systems. Such abandonment would result in severe destabilization of many central business districts that HUD is attempting to revitalize. New systems can promote development within areas that need revitalization and can offer long term stabilized energy costs and environmental improvements. HUD's district heating program should address how cities can overcome project/development complexities that result when district heating/cooling systems are coupled with urban waste-to-energy systems.

The importance of district heating/cooling and its national applicability can be seen in the 1983 ground breaking of the first modern hot water district heating systems in the U.S.: Baltimore, MD; Piqua, OH: Trenton, NJ; and St. Paul, MN. The Committee commends the role that HUD programs played in these projects, particularly the application of Urban Development Action Grants, and encourages the Department to continue to identify such opportunities.

Section 214: Neighborhood development demonstration

The Committee bill would authorize a $15 million Demonstration Program to assist neighborhood organizations to carry out community development activities through an innovative matching grant mechanism. Designed to encourage greater financial self-sufficiency on the part of non-profit neighborhood development groups, the program would provide federal matching funds of up to $50,000 per organization on the basis of charitable contributions which organizations raise from individuals, businesses, and religious institutions in their areas. Different matching ratios would be established for participating organizations based upon the size and economic condition of the community in the which those organizations operate, although the ratio could not be lower than 50/50. In selecting participating organizations for the demonstration program, the Committee intends that the Secretary shall place particular weight upon the strategy which the organization presents for achieving greater long term, private-sector support.

It is also the Committee's intent to help neighborhood organizations to form community partnerships with business and government by providing federal funds with a minimum of strings and red tape. These funds shall be used to the greatest extent feasible as a pool of seed capital with which to leverage additional private and public sector investment in neighborhood development. To encourage this entrepreneurial perspective on partnership formation, the Secretary shall require from each applicant organization a

business plan which specifies leveraging opportunities and experience. This business plan shall be carefully evaluated is selecting participating organizations from the applicants.

The Demonstration Program is focused upon distressed areas of cities that qualify for federal assistance under the UDAG eligibility criteria. The Committee intends that organizations which work on a multi-community or county-wide basis in sparsely populated rural areas, but which otherwise meet the criteria for eligibility established in Section 214(a)(3) and which propose to work in a defined neighborhood within a UDAG eligible small city, shall be eligible for federal matching grants under the Neighborhood Development Demonstration Program.

The Committee bill requires HUD to plan, monitor, and evaluate the Demonstration Program systematically and to submit periodic reports to Congress. A formal program evaluation is authorized to provide the Committee with the basis for future legislative action. Up to 5% of the funds authorized for the Demonstration Program are set aside for these purposes.

TITLE III.—HOUSING ASSISTANCE PROGRAMS

Section 301: Allocation and use of assisted housing authority

Section 301(a). The current requirements regarding allocations of housing assistance contained in Section 213(d) of The Housing and Community Development Act of 1974 are modified to require that the "fair share" allocation formula be specifically established by regulation. This "fair share" distribution will apply to Section 202 elderly housing loans, any housing payment certificates that are not linked with the rental rehabilitation and development program or with formerly assisted units, and any other funds that become available under housing assistance programs.

Existing provisions are retained which require that (a) allocated funds first be made available for other areas in the State before reallocation to another State and (b) HUD must accommodate the desires of State and local governments regarding the type of housing assistance, subject to the limits of total available funds. Under these provisions the use of recaptured or deobligated funds would follow this procedure: first, the State or locality with the original allocation could choose to use the funds for another type of housing assistance such as modified certificates; second, if the original locality could not obligate the funds, then other parts of the original State could choose to use them for any legal type of housing assistance; finally, if the Secretary determines that the funds cannot be used in the State during the fiscal year, then funds could be made available in another State. The Committee intends that recaptured, deobligated, or newly appropriated funds be committed by the end of the fiscal year so the Secretary should set clear deadlines by which States and localities must decide the type of housing assistance desired and by which funds must be obligated in a State before losing them to another State.

In amending the statute governing the allocation and use of assisted housing authority, the Committee intends that the Secretary of HUD should continue to monitor the use of Federal housing assistance by local communities to ensure that the assistance is used,

to the maximum extent practicable, to meet needs and goals identified in local housing assistance plans. The Committee believes both that local communities should be encouraged to carefully define their own housing needs and the HUD must monitor local use of Federal assistance so that it accomplishes established goals.

This section of the bill also replaces the current set-aside for nonmetropolitan areas of between 20 and 25 percent of each year's funds. Assistance under the housing payment certificate program is required to be set-aside for up to 2,000 units for use with the rural housing preservation grant program.

Section 301(a)(3) authorizes up to $100,000,000 for emergency shelter assistance grants to be made from the HUD Secretary's housing discretionary fund. These grants would be used by local governments and nonprofit organizations to operate emergency shelters.

Section 301(b). Limitations for new reservations of housing assistance in FY 1983 are set at $7.65 billion budget authority and $504 million annual contributions contract authority. From total annual contributions funds, no more than $230.4 million can be used for the Section 8 existing housing program or amendments to Section 236 or rent supplement program contracts, $51.9 million for the housing payment certificate program, $120.2 million for public housing amendments, modernization, demolition, or disposition. $4.35 billion of these funds are expected by HUD to be available from deobligations and recaptures. The bill also authorizes new appropriations if necessary.

Modified section 8 existing housing assistance program Section 302:

The new housing payment certificate program is established in this section through several specific amendments to Section 8. First, Section 302(a) amends Section 8(b) of the United States Housing Act of 1937 to permit, under Annual Contributions Contracts (ACCs) executed after enactment of the Housing and Community Development Amendments of 1983, assistance contracts using the new payment standard for family-selected existing housing. It is anticipated that all new ACC's providing Section 8 Existing Housing subsidies after FY 1983 will be under the modified program, except for "project-based" Existing Housing subsidies in connection with Rent Supplement, Section 236 RAP and Section 23 Conversions.

Section 302(b) amends Section 8(c) to retain most of the features of the current Section 8 program authority, but aspects of that authority formerly contained in Section 8(d) have been merged into subsection (c) as well. Thus, subsection (8)(d), completely revised, will describe the new housing payment certificate program as a component of the Section 8 Existing Housing Assistance Program.

Three changes in Section 8(c) are proposed. First, fair market rents must be the same as the rent used to establish the payment standard in the new program. Second, this subsection clarifies that the 90-day notice by the owner to the tenant of possible rent increases after contract expiration applies only to new and sub-rehab projects, as clearly stated in the Conference Report on the 1981 Act. Third, tenant selection policies are modified by adding a new preference for families who are paying more than half their income

for rent. Fourth, the local housing authority is allowed to adjust the payment standard up or down by up to 20 percent for categories of families or types of units provided the adjustment will not require any additional funds from HUD. The PHA must consult with the local government and the public about the adjustment. This flexibility will enable PHA's to adapt the schedule of rents published by HUD to the local market so that the maximum number of families can find and actually rent standard housing.

Section 302(c) establishes the housing payment certificate program in a new Section 8(d).

This new subsection (d)(1) requires the Secretary to establish payment standards (based on dwelling size and type) for different market areas, and to use these standards to determine the monthly assistance amount. Payment standard levels must be designed so as to assist families in securing decent, safe and sanitary housing and include an amount for utilities. The payments must be based on a formula in a regulation prescribed by HUD within 60 days after enactment. The formula must be based on the most recent data for rents paid by recent movers, be set at the 45 percentile of rents unless the Secretary finds this is excessive for a particular area, be adjusted by the Secretary if the PHA presents factual information about excessive time for certificate holders to find apartments, and include an amount for utilities. The Committee accepts the soundness of the basic principle of setting a payment standard and providing recipients with a wider choice of housing than is currently possible under the Section 8 program. There is evidence that under the Experimental Housing Allowance Program rents tended to be lower than under the Section 8 existing program, and that, although rents clustered around the standard, a substantial number of EHAP participants paid either higher or lower rents. The Committee is concerned, however, at testimony that the payment standard tentatively proposed by HUD would have been so low that recipients would, in fact, have had no option but to pay more than the program envisages. The standards finally adopted by HUD should be adequate to provide reasonable housing choice to recipients without requiring them to exceed the statutory tenant contribution.

The new Section 8(d)(2) sets out the basic formula for determining the assistance paid to a family under the modified certificate program. The formula sets the monthly assistance payment at the amount by which the payment standard exceeds 30 percent of the family's monthly adjusted income. However, this formula is subject to a "minimum rent" exception. The assistance payment also may not exceed the amount by which the actual rental (i.e. rent to the owner plus the allowances for utilities) exceeds the greater of 10 percent of family income or the welfare shelter component identified by the HUD Secretary.

Proposed new Section 8(d)(3) allows only those families determined to be very low income (i.e. at or below 50 percent of area median) to qualify for assistance under the modified certificate program, unless the family had been previously receiving assistance under the United States Housing Act of 1937. Preference is required to be given to families which, at the time they are seeking assistance, occupy substandard housing, are involuntarily dis-

placed, or are paying more than 50 percent of family income for rent. The first two of these preference criteria are already included in the United States Housing Act of 1937. The high rent burden preference is established in this program, the other Section 8 programs and the public housing program in recognition of the fact that families with a high rent burden have greater need for housing assistance. These preferences follow the recommendations of the President's Commission on Housing in an effort to assure that the limited number of certificates and other assistance which can be made available under current budget constraints go to families with the greatest housing needs. The substandard preference should apply to households whose present accommodations are seriously substandard, or present a threat to health or safety (as distinguished from relatively minor code violations). The involuntary displacement preference should include homelessness, reflecting past displacement, as well as displacement from any factors beyond the reasonable control of the family, even if no public action is directly or indirectly responsible for the displacement.

Subsection (d)(4) would authorize the Secretary to override the normally applicable preference criteria in order to use annual contributions contract authority for special purposes. Thus, the Secretary, under the modified program could use certificates for (1) families who previously were assisted under the public housing or present Section 8 program, (2) eligible families occupying units in formerly assisted projects acquired by the Secretary, or (3) families in units being rehabilitated under the Rental Rehabilitation and Development Program.

Subsection (d)(5) limits payments for vacant units to the month during which the tenant leaves the unit.

Under subsection (d)(6), contracts with a public housing agency to administer the modified certificate program would be for an initial term of five years. PHA's would be required to inspect a unit selected for occupancy by a family holding a certificate and to determine that the unit met housing quality standards set by HUD before any assistance payment could be made. Thereafter the PHA is required to make annual or more frequent housing quality inspections. If a dwelling unit failed inspection, no assistance payment could be made unless the failure was promptly corrected and the PHA verified the correction.

Under subsection (d)(7) public housing agencies are allowed to increase the assistance payments annually during the 5-year contract period to assure continued affordability. Under the annual contributions contract the PHA receives 10 percent more funds than the estimated assistance needs in the first year. Any adjustments to the assistance payments must be paid for from these additional funds plus any funds which become available because of families dropping out of the program. Funds not needed for adjustments can be used by the PHA for aiding additional families. The PHA is required to consult with the local government and the public regarding the trade-off between higher subsidies and assisting more families.

In subsection (d)(8) the PHA is allowed to commit up to 5 percent of its certificates to lower income cooperatives or mutual housing if

it determines this 5-year commitment will maintain affordability of this housing for poor families.

Subsection 302(d) amends Section 8(j) of the United States Housing Act of 1937 to accommodate a certificate program for families renting manufactured homes and spaces or manufactured home spaces.

Section 302(f) exempts the establishment of the specific amounts for fair market rents or payment standards from Congressional review procedures. The Committee believes that formal Congressional and public review of the formula and methodology for determining rents is sufficient to allow the particular figures to merely be published in the Federal Register.

Amendments affecting tenant rents or contributions

Section 303:

This section makes changes in the 1937 Act and in the gradual implementation provisions of the Omnibus Budget Reconciliation Act of 1981 occasioned by the new modified certificate program.

In Section 303(a) the requirement for annual review of family income has been moved from Section 8(c)(3) to Section 3(a) of the Act, to make the same annual recertification requirement applicable to both the present Section 8 authorities and the new modified Section 8 program. Also, the rent payment formula in Section 3(a) of the Act is revised to provide that the 3(a) formula does not apply to "rents" paid by certificate holders under the modified Section 8 Existing Housing Program. (A similar, but not identical formula for determining assistance levels under the modified program is set out separately in the revised Section 8(d)(2) of the 1937 Act.) Certificate holders under the modified program will pay "rent" at levels higher or lower than those provided for in 3(a), depending upon the price of housing selected by those families and the amount of subsidy produced by application of the payment standard formula.

In Section 303(b), Section 3(b) of the Act is amended to clarify that the Secretary may establish income ceilings higher or lower than 50 percent of median on the basis of the Secretary's findings that such variations are necessary because of unusually high or low family incomes. The Secretary already has this adjustment authority for establishing income ceilings higher or lower than 80 percent of median, and comparable authority at 50 percent of median is appropriate, especially in light of the continued shift of emphasis toward assistance for very low-income families.

In Section 303(c) the value of food stamps is excluded from income determinations under housing programs as occurs in current regulations.

In Section 303(d), the Secretary is required to exclude medical costs that exceed 3 percent of gross income in determining the adjusted income of elderly families. This requirement is the same as in current regulations.

Section 303(e) modifies the requirement for a minimum rent equal to the "shelter allowance" portion of public assistance grants. Currently this applies only if the State specifically designates a shelter allowance and adjusts the allowance based on the family's actual housing costs. With the modifications in the bill, a minimum rent will be established for all public assistance recipi-

ents as the amount identified by the Secretary (but no more than 30 percent). The Secretary can prescribe adjustments to the "shelter allowance" minimum rent. Such an adjustment is expected to be made, for example, to avoid forcing a large welfare-aided family to pay higher rent than a similar family with the same income but from other sources. This change to minimum rents will not impose an undue hardship on currently subsidized families because it is subject to a cap on rent increases of 10 percent per year which have been maintained by the Committee from legislation enacted in 1981.

Sections 303 (e) and (f) amend the provisions of Section 322(i) of the Omnibus Budget Reconciliation Act of 1981 which give the Secretary discretion to gradually phase in the rent increases (from 25 to 30 percent of adjusted income) for tenants receiving assistance when that Act was enacted. Rent increases resulting from this phase-in and from changes in Federal laws or regulations dealing with what benefits can be "counted" as income for housing assistance purposes are limited by this provision to 10 percent a year.

Subsection (e) of this Section provides for the gradual phase-in of rent increases caused by the shift to a payment standard-based housing payment certificate program and extends the gradual phase-in feature of the 1981 Act to tenants occupying assisted housing at or before the time regulations implementing the housing payment certificate program become effective. This subsection also applies the 10 percent annual limit on rent increases to increases arising from regulations.

The provisions require the Secretary to assure that no family assisted at the time the housing payment certificate amendments are implemented would experience an increase in rent or contribution, as appropriate, greater than 10 percent in any 12-month period, if that increase were attributable to (1) percentage-of-income increases mandated by the Omnibus Budget Reconciliation Act of 1981; (2) housing payment certificate program amendments in this bill and (3) any other provision of Federal law or regulation unless the increase comes from increases in income unrelated to the amendments, laws, or regulations. Any combination of these factors—which would otherwise cause a family's statutory contribution toward the cost of assisted housing to increase by more than 10 percent a year—would be limited to 10 percent per year. In addition, the amendments would apply these gradual implementation provisions to the determination of a family's contribution under the new housing payment certificate program. Tenants who were not occupying assisted housing at the time the housing payment certificate amendments are implemented would be subject to immediate rent payment or contribution determinations in accordance with applicable law, with no "phase-in". However, any such tenant who was occupying assisted housing at the time of a (future) change in Federal law redefining which governmental benefits are required to or may be considered as income would have the effect of such a change in law limited by a 10 percent cap.

Subsection (f) excludes housing assistance from treatment as income in other Federal programs.

Subsection (g) repeals Section 322(i) of the Omnibus Budget Reconciliation Act because it is replaced by the provisions of Subsection (e) described above.

Section 304: Public housing accreditation

Section 304 establishes the Public Housing Accreditation Commission ("the Commission") by adding a new section 17 to the Housing Act of 1937.

The new section 17(a) puts the Commission within HUD and specifies the appointment of its 13 members; with 4 appointed by the Council of Large Public Housing Agencies, 4 by the National Association of Housing and Redevelopment Officials, 2 by the Public Housing Agency Directors Association, 1 jointly by the National League of Cities and U.S. Conference of Mayors, and 2 by the National Low Income Housing Coalition. The HUD Secretary can make appointments if any organization fails to within 60 days of enactment. Thirty days after all appointments are made, the first meeting of the Commission must occur at which the members elect their chairman.

In new section 17(b) the Commission is charged with setting its own rules and schedules. Its meetings must be open to the public.

The functions of the Commission are set forth in the new section 17(c) as: (1) establish accreditation standards for professional management of public housing agencies both for operating public housing projects and the Section 8 program; (2) establish evaluation procedures; (3) establish sanctions or remedies for PHA's which do not become accredited; and (4) make recommendations to the HUD Secretary including which items of maintenance and repair will be the PHA's responsibility (funded as part of regular operating subsidies) and which items will be major systems replacements and thus eligible for HUD discretionary grants from the new major systems replacement fund described under Section 395(c).

Under the new Section 17(d), the Commission is authorized to apply different standards, evaluation procedures, and accreditation periods for different classes of PHA's such as past performance, size of the PHA, or whether or not the agency received operating assistance. The Commission must also determine the length of an accreditation period, a termination mechanism, and an appeal procedure.

Requirements for carrying out the evaluation responsibilities of the Commission are set forth in 17(e). These include that evaluations be done by teams of PHA officials or housing management specialists from an area outside the HUD region in which the PHA is located.

Subsection 17(f) contains the procedures for establishing the accreditation standards and system. Within eight months of its first meeting, the Commission shall publish proposed accreditation standards, evaluation procedures, termination and appeal mechanism and remedies for non-accredited procedures. The HUD Secretary may then accept or reject the Commission's proposals in each of those areas. This HUD veto of the Commission gives the Department appropriate review over the "peer review" process inherent in the accreditation Commission concept.

Funding for the Commission's operations is established in Section 17(g). While it develops its recommendations (described above in 17(f)), the Secretary will provide personnel and funds. After that, the Commission is financed by accreditation fees charged to PHA's.

Section 305: Increased authority for management flexibility and for payments for operation of lower income housing projects

Section 305 modifies the performance finding system under which operating subsidies are distributed to PHA's.

Part (a) authorizes $1,500,000,000 for FY 1984.

Part (b) requires the continued use of a performance funding system (PFS) which establishes standards for the costs of operating a prototype well-managed public housing agency. The Committee intends that the current PFS system basically remain in place but that certain improvements should be incorporated based on the need for updating the system since its establishment and for increasing financial incentives for good management of public housing. Under the statute the PFS must include (a) regular adjustments in allowable expense levels which reflect the continually changing costs of running a prototype project; (b) annual adjustments for inflation (so-called "retrospective adjustments"); (c) 50–50 sharing between HUD and the PHA of savings in energy costs; (d) provisions allowing the PHA to keep funds it receives from sources other than rents; (e) provisions removing subsidies from vacant or deprogrammed units by fiscal year 1986; (f) a plan for proportional reductions in the event total operating subsidy appropriations are insufficient; and (g) by FY 1985 a 15 percent allowance for ongoing repairs and maintenance by PHA's that are accredited.

Part (c) provides for multi-year (up to 3 years) contracts with accredited PHA's. The terms of the contract require that: they submit data annually to permit the Secretary and the Commission to determine that an agency continues to be in compliance with the contract and the law and applicable regulations; agencies be permitted maximum flexibility to establish and implement, at the local level, its own management, financial and operating procedures; agencies adequately maintain the physical condition of housing projects, serve the households required to be served by the law and meets other requirements of this Act governing the operation of lower income housing projects. These provisions contemplate maixmum deregulation and minimal day-to-day supervision by the Secretary of PHA's consistent with the basic requirements of the National Housing Act.

In Part (e) the terms of contracts with PHA's that lose accreditation are spelled out. These agencies enter into a one-year contract with the Secretary. The contract emphasizes correcting those conditions which led to loss of accreditation in order to permit the agency to regain that status. The Secretary is given authority to apply the remedies or sanctions adopted by the Commission in order to expedite the correction of the adverse conditions which exist in that agency.

Part (f) is a transition provision providing 1-year contracts during FY 1985 for PHA's which have not yet been evaluated by the accreditation Commission.

Part (g) establishes a major systems replacement fund from which the Secretary will make grants for major repairs or replacement of building systems or for major management system improvements. These limited purpose grants, along with the 15 percent additional operating subsidy for ongoing repair and maintenance, will replace the current comprehensvie improvement assistance program.

Section 306: Comprehensive improvement assistance

Section 306 modifies the current comprehenisve improvement assistance program (CIAP) to reflect the changes in PFS and the major systems replacement fund described above in Section 305. First CIAP is to be used during the transition period before PHA's are evaluated for accreditation to assure that all housing units meet habitability standards and that the maximum number of PHA's can meet physical condition standards to become accredited. CIAP is then repealed on October 1, 1985, except as applied to PHA's which have never become accredited because of poor physical condition of their projects.

Section 307: Demolition and disposition of public housing

Section 307. A new Section 18 is added to the U.S. Housing Act of 1937 to authorize approval by the HUD Secretary of demolitaton and disposition of public housing. Demolition or disposition is now allowed but only in the context of a complete plan and HUD funding for comprehensive improvements to all projects managed by a PHA.

As long as a shortage of low rent housing persists, the Committee believes that every effort should be made to retain the present stock of public housing. However, some public housing buildings are so obsolete by their condition, location, or other factors that no feasible program of modification can return the building to useful life. The bill therefore includes reasonable and workable restrictions which nevertheless allow the demolition and/or disposition of public housing projects or parts thereof, if there is no reasonable or viable alternative to bring the project back to useful life. If the condition of the project is such that it would be less expensive to demolish and replace it than to rehabilitate it, or if the location is such as to preclude use, or the density is so high that the project should be "thinned out", the Secretary may approve an application under this section only if families to be affected, and local government officials, have been consulted. Any tenants to be displaced must be given assistance to relocate to other standard housing.

In cases where the PHA requests permission to dispose of a public housing project, the Secretary can approve the application only if other conditions are also met: (a) retention of the property is not in the best interests of the tenants because of adverse changes in the surrounding area or better opportunities for a more effective or efficient lower income housing project, and (b) the proceeds of the disposition will be set aside to retire outstanding bonds and any extra proceeds used by the PHA to improve other public housing projects, to provide assistance under Section 8, or develop other public housing opportunities. Committee does not require a 1

for 1 replacement, the availability of vouchers is not sufficient reason to drop public housing units from stock.

The Committee believes that priorities for the public housing program at this time should be the modernization of existing structures and the completion of projects that are already in the pipeline.

The Committee's bill would continue the serious efforts now underway to modernize the existing public housing stock of 1.2 million units. Many of these units are energy inefficient and otherwise costly to operate. Many fail to meet present day standards for decent, safe and healthful housing; some are vacant and uninhabitable. The Congress has directed that a concerted effort be initiated under the Comprehensive Improvement Assistance Program to bring these units up to standard and extend their useful lives. The Committee believes that priority should be given to ensuring that the valuable public investment in public housing will be well-managed and maintained on an ongoing basis.

With regard to any additional public housing, the Committee believes that priority should also be given to clearing the backlog of the public housing units that were approved in prior years but have not yet been constructed. Given these priorities, the Committee does not anticipate that the Congress will provide budget authority for the construction of additional public housing in FY 1984. Nevertheless, the Committee recommends continuation of the present legislative authority for the development of low income public housing under the Housing Act of 1937, since, in the future, the Congress may provide additional funding.

Section 308: Financing limitations

This section prevents HUD from contracting with the Federal Financing Bank to make interest differential paymen'ts in connection with FFB financing of tax exempt public housing loans and requires that these loans continue to be sold in the tax exempt securities market. The Committee is concerned that repeated and varied proposals are made by HUD to turn public housing financing into taxable securities without presenting any analysis of cost savings to the government. The Committee notes that sales of tax exempt public housing notes and bonds has successfully resulted in the lowest borrowing costs (now around 5 percent) of any similar program.

Section 309: Operating assistance for troubled multifamily housing projects

Would amend Section 201 of the Housing and Community Development Amendments of 1978 to delete the Secretary's discretionary authority to provide oeprating subsidies under Section 201 to troubled multifamily housing projects which, though HUD-assisted, are not covered by a mortgage which is insured or was formerly insured under the National Housing Act.

Section 310: Housing for the elderly and handicapped

This section amends the Section 202 program of housing for the elderly and handicapped. Under the Section 202 program, the Federal Government makes direct loans to project sponsors to use in

developing rental housing that is specifically designed to meet the needs of the elderly and handicapped. The bill provides authorization for $667 million in direct loans for the development of no more than 14,000 units of Section 202 housing. In addition, the bill (1) directs the Secretary to assure the inclusion of special design features and congregate space necessary to meet the needs of elderly and handicapped; (2) encourages the provision of small and scattered site group homes and independent living facilities for non-elderly handicapped persons and families; and (3) permits any sponsor to voluntarily provide funds from other sources for appropriate amenities if they are not financed or subsidized with Federal money. A $10,000,000 per year authorization through FY 1986 is also provided for the associated Congregate Housing Services program.

Section 311: Repeal of new construction authority

This section repeals the numerous references to new construction and substantial rehabilitation contained in the Section 8 program authorities. These costly forms of assistance for rehabilitation and new construction have been replaced by the Rental Rehabilitation and Development Grants. The new construction authorities are retained, however, for obligations made before fiscal year 1983 and for elderly housing projects financed with Section 202 loans.

Section 312: Housing demonstration

Authorizes the Secretary, beginning October 1, 1983, to undertake a demonstration and evaluation of programs to meet the special housing needs of older Americans. Up to $10 million is authorized to be used from the Secretary's housing discretionary fund contained in Section 213(d)(4).

Section 313 and 314: Section 236 assistance and rent supplement program

Sections 313 and 314 require amendments to contracts for 236 and rent supplement assistance, respectively, in units which were not financed with a HUD-insured mortgage. These amendments to State-insured projects would only cover the number of units in a building occupied by tenants receiving assistance prior to the date of enactment and is limited by the limitation on new commitments of annual contributions authority contained in 5(c)(5)(A) of the 1937 Housing Act. This provision is intended to ensure that lower income families in subsidized housing do not face rent increases due to higher operating costs simply because they live in a State-insured building rather than a FHA-insured building.

Section 315: Amendment to section 214 of the 1980 act

Section 315 amends limitations on housing assistance to certain aliens to avoid undue hardship where members of the family are legal citizens and to provide a transition period of up to six months before ineligible families must be evicted.

Section 316: Pets in elderly housing

Section 316 prohibits owners or operators of federally assisted housing that is designated for elderly or handicapped tenants from

barring ownership of common household pets (such as cats, dogs, fish, and birds) by residents, unless the keeping of a pet is determined by the owner or operator to be a nuisance or a threat to the health or safety of other residents. Although neither HUD nor the Farmers Home Administration has issued regulations governing the keeping of pets, an absolute "no pet" policy is widely practiced in Federally-assisted rental projects. The Committee believes that such a blanket policy is inappropriate in projects designed for elderly or handicapped persons.

Evidence from numerous studies show that pets provide substantial physical and mental benefits to older persons, particularly those who live independently. It is the Committee's view that these benefits warrant Congressional action to prevent arbitrary rulemaking in Federally-assisted projects. At the same time, the Committee intends that owners and operators of elderly projects retain authority to establish reasonable rules governing the keeping of pets. Such rules may take into account reasonable standards concerned with the number and size of pets, space requirements for pets, pet care and potential financial obligations. The Committee bill provides, in addition, that owners and operators may, after affording the tenant a meeting to discuss a complaint or a problem related to pet ownership, order the exclusion of a pet when he determines it to be a nuisance or a threat to health or safety. However, the Committee believes that such reasonable standards should not be used arbitrarily to preclude pet ownership in elderly or handicapped projects.

Section 317: College housing

Section 317 would raise the rate of interest charged on Federal loans made to educational institutions for the construction of student housing and related facilities. The present rate is three percent. The amendment would require that the rate reflect the Treasury's cost of borrowing at the time a loan is made. According to the Treasury Department the Government's cost of long-term money is presently over 10 percent.

When the program was enacted in 1950, interest was set at the rate of the most recent issue of U.S. bonds of 10 or more years maturity. In 1965, a ceiling of three percent was placed on such loans, and this ceiling still remains in effect despite increases in the Treasury's borrowing costs.

Since the ability to borrow at Treasury rates would continue to provide substantial benefits to colleges, the Committee believes that the need to reduce Federal deficits requires termination of the deeply subsidized three percent loan rate.

TITLE IV.—INSURANCE PROGRAM

Section 401: Crime and riot insurance

Section 401(a) amends Section 1201(b)(1) of the National Housing Act by extending the authority to carry out the programs in parts A, B, C, and D of Title XII, the National Insurance Development Program, from May 20, 1983 to September 30, 1983.

Section 401(b) amends Section 1201(b) by adding subsection (3) which provides that the Administrator must notify participating

insurers under Section 1223 and 1231, which refer to crime insurance and riot reinsurance respectively, that the powers under Title XII will terminate on September 30, 1983.

Section 402: Technical amendments

Section 402(a) amends Section 1370(a)(6) of the National Flood Insurance Act of 1968 by deleting the definition of "Secretary" and adding a definition of the term "Director" which means Director of the Federal Emergency Management Agency.

Section 402(b) amends Section 3(a)(6) of the Flood Disaster Protection Act of 1973 by deleting the definition of "Secretary" and adding a definition of the term "Director" which means Director of the Federal Emergency Management Agency.

Section 402(c) amends Section 1304(a) of the National Flood Insurance Act of 1968 by changing the reference to the "Secretary" of Housing and Urban Development Agency.

Section 402(d)(1) changes each reference to "Secretary" in the National Flood Insurance Act of 1968 or in the Flood Disaster Protector Act of 1973 to "Director" except in the instance that "Secretary" refers to a Secretary of a department other than the Department of Housing and Urban Development.

Section 402(d)(2) changes each reference to "Secretary's" in the National Flood Insurance Act of 1968 or in the Flood Disaster Protection Act of 1973 to "Director's" except in the instance that "Secretary's" refers to a Secretary of a department other than the Department of Housing and Urban Development.

Section 402(e) amends Section 15(e) of the Federal Flood Insurance Act of 1956 which provides for funds and Treasury borrowing, by changing the reference to "Secretary" in the first and third places it appears to the "Director" of the Federal Emergency Management Agency.

Section 402(f) amends Section 1201 of the National Housing Act by adding subsection (c) which defines the term "Director" as the Director of the Federal Emergency Management Agency.

Section 402(g) amends Title XII of the National Housing Act by replacing each reference to "Secretary" with "Director".

Section 402(h) amends Section 1340(a)(2) of the National Flood Insurance Act of 1968. This section authorizes the Secretary to determine whether a flood insurance program which consists of an industry program with Federal financial assistance cannot be carried out or if the operation would be assisted by the Federal government assuming responsibility for flood insurance under title XII. If the Secretary were to make such a determination, he is authorized to carry out the program utilizing insurance companies and other insurers, officers and employees of the Department of HUD and other officers and employees of any executive agency or both of these groups. This provision is amended by deleting the reference to "officers and employees of the Department of Housing and Urban Development."

Section 402(i) amends Section 1232(2) of the National Housing Act which provides that in carrying out his responsibilities, the Secretary may utilize insurance companies and other insurers as well as officers of the Department of Housing and Urban Development and other officers and employees of any executive agency, or

members of both of these groups. This provision is amended by deleting the reference to "officers and employees of the Department of Housing and Urban Development, and."

Section 402(j) amends Section 1247 of the National Housing Act which provides that the Secretary has the functions, powers and duties authorized in Section 402, except subsection (c)(2), (d) and (f) of the Housing Act of 1950. This amendment would specify that these functions, powers and duties refer to those of the Secretary of the Department of Housing and Urban Development.

Section 403: Extension of flood insurance authorities

Section 403(1) amends Section 1319 of the National Flood Insurance Act of 1968 which authorizes the Secretary to enter into new contracts for flood insurance through September 30, 1982, by extending the authority through September 30, 1985.

Section 403(2) amends Section 1336(a) of the National Flood Insurance Act of 1968 by adding that the expiration of authority does not affect the continued availability of insurance to communities currently participating in the program or to owners of property who have made a contract of flood insurance for the property before the expiration of the flood insurance program.

Section 403(3) amends Section 1307 by adding subsection (f) which authorizes the Secretary to estimate the risk premium rate for an area, where appropriate, based on an assessment of the flood risk zones as established by the flood hazard boundary map for that area.

Section 403(4) amends Section 1360 by adding that the Secretary may conduct studies to estimate premium rates and must establish the risk premium rates for the types and classes of properties insured under Section 1336, the emergency phase of the program, no later than August 1, 1983.

Section 404: Judicial review

Section 404 amends Section 1333 of the National Flood Insurance Act of 1968 which provides that the insurance companies and other insurers which form the industry flood insurance pool may adjust and pay all claims for proved and approved losses covered by flood insurance. In the case where the claimant refuses to accept the amount allowed or the claim, the claimant may institute an action on the claim against the company or other insurer within one year after the mailing of the notice of disallowment or partial disallowment in the U.S. district court for the district in which the insured property is situated. Jurisdiction is conferred on the U.S. district court to hear and determine the action regardless of the amount in controversy. This section is amended to specify that the U.S. district court has original exclusive jurisdiction over this action.

Section 405: Study of sinkhole insurance

Section 405 authorizes the Federal Emergency Management Agency to make a grant to a nonprofit organization, educational institution or affiliated agency or entity, or State or local agency to finance a study of the feasibility of expanding the national flood insurance program to cover damage or loss arising from sinkholes.

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No more than $1,000,000 is authorized to be appropriated for this provision.

TITLE V.—RURAL HOUSING

Section 501: Short Title

Section 501 states that this title may be cited as the "Rural Housing Amendments of 1983."

Section 502: Definitions

Section 502 amends Section 501(b)(4) of the Housing Act of 1949 which defines "persons of low income" and "persons and families of low income" as those whose income or incomes do not exceed 80 percent of area median income with adjustments for smaller and larger families. If this is impracticable, the Secretary is authorized to use the median income of all nonmetropolitan areas in the State. The Secretary may establish a higher or lower income ceiling based on prevailing levels of construction costs, unusually high or low family incomes, or other factors.

The provision would define "low income families or persons" and "very low income families or persons" as those families and persons whose incomes do not exceed the respective levels established for lower income families and very low income families by the Secretary of HUD. This will allow the limits to reflect income variations on a county by county basis, rather than the regional estimates of income used by the Farmers Home Administration.

Section 503: Section 502 amendments

Section 503 provides that not less than 40 percent of the units financed under Section 502 on a national basis must be available for very low income families. At least 30 percent of the units financed in each State must be available for very low income families. This provision is intended to require that some of the assistance provided through Section 502 must benefit very low income families. This language is also meant to encourage the use of less costly methods of providing housing construction which is more affordable to those persons or families of very low income.

Section 503(a) also provides that a loan may be made under Section 502 for manufactured housing or a home and a lot whether it is considered property, personal property or mixed real and personal property if it meets the standards prescribed in Title VI of the Housing and Community Development Act of 1974 and the installation, structural and site requirements which are specified in Title II of the National Housing Act. The Committee intends to make manufactured housing eligible for subsidization under Section 502, provided that it is built to the National Manufactured Home Construction Safety Standards and meets the installation and site requirements of HUD's Title II 203(b) insurance program for manufactured housing. The Committee feels that these homes provide a safe, adequate and affordable means of providing housing to lower income families. The standards prohibit the financing of homes which are not safe, durable or energy efficient. The energy performance standards in Title II are more stringent than the current requirements under the National Manufactured Home Con-

struction Safety Standards. According to an assessment by HUD these standards are, on an aggregate basis, comparable in energy performance with the HUD Minimum Property Standards. The Secretary may make information available as to the benefits associated with available energy savings techniques. The borrower may request additional energy efficiency mechanisms, if they are affordable to him.

The Committee intends that the FmHA will act in an expeditious manner in implementing this program.

Section 503(b) repeals Section 527 of the Housing Act of 1949 which authorizes the Secretary to include mobile homes and mobile home sites in the definition of "housing" and prescribes minimum property standards for the mobile home and its site. The language is unnecessary as the construction standards and site requirements are provided in Section 502 by Section 503(a). The terms and conditions for loans on manufactured homes have been made consistent with those provided for all other homes financed through Section 502.

Section 503(c) amends Section 502(a) by deleting the limitation on the interest rate charged on loans made under Section 502 and the requirement that loans may be conditioned on the borrower paying any fees and charges specified by the Secretary. This restriction on the interest rate has been superseded by authority provided in Section 521(a)(1)(B) and is unnecessary in this section. The provision allowing the borrower to prepay the Secretary as an escrow agent has also been deleted.

Section 503(d) amends Section 502(b)(3) which provides that except in the case of guaranteed loans, the borrower will refinance the balance of his loan through a private lender when his income increases to the extent that it is sufficient to make the required payments. Section 503(d) deletes the reference to guaranteed loans. This reference is unnecessary since the authority for guaranteeing loans made by private lenders has been deleted.

Section 504: Rehabilitation loans

Section 504 amends Section 504 of the Housing Act of 1949 which authorizes the Secretary to make a grant or combined loan and grant to an eligible borrower, provided they cannot qualify for Section 502 or 503. The repairs made under this section must make the dwelling safe and sanitary and remove all health hazards. The cost for the repairs may not exceed $5,000 if assistance is made in the form of a grant or $7,500 if a combination loan and grant is made. The provision amends this section by authorizing the Secretary to make a loan, grant or combined loan and grant to an eligible very low income applicant provided that the improvements make the unit safer, more sanitary or remove health hazards. The Secretary is authorized to determine a maximum amount which is appropriate for both loans, grants and combined loans and grants. The Committee feels that assistance for rehabilitation should be available to eligible recipients regardless of their ability to qualify for Section 502 loan in order to improve their housing conditions. This language does not require that the home be brought up to code and allows for partial rehabilitation or improvements which respond to immediate threats to the health and safety of the resi-

dent. The Committee intends however that the Secretary will establish loan and grant limits which will be sufficient to accommodate extensive rehabilitation of substandard units.

Section 505: Technical services and research

Section 505 amends Section 506(b) of the Housing Act of 1949 which authorizes the Secretary to conduct research, technical studies and demonstrations in order to improve the architectural design, cost effectiveness and utility of dwellings. The amendment would allow the Secretary to permit housing demonstrations which do not meet existing standards if it does not adversely affect the health and safety of the population. Not more than $10,000,000 may be set aside for the purpose of these demonstrations and the Secretary must submit a report on the results of these activities to Congress at the close of the fiscal year. This provision is intended to allow the use of new, more efficient types of housing which may not meet certain technical standards or agency regulations. Applicants utilizing this authority must submit supportive engineering data when less than minimum standards would be applicable as well as to document the feasibility of the proposal. The Committee does not intend that this funding is to be used for administrative funding or for research purposes.

Section 506: Standards for adequate housing

Section 506 amends Section 509(a) which authorizes the Secretary to determine standards of adequate housing by requiring the Secretary to accept a building for financing if it meets one of the following standards; the minimum property standards prescribed by the Secretary; the minimum property standards prescribed by the Secretary of Housing and Urban Development for mortgages insured under Title II of the National Housing Act; the standards in any of the voluntary national model building codes; or in the case of manufactured housing, the standard referred to in Section 502(e). The Committee intends that each borrower will have the ability to select the code which is most appropriate in his particular case. This does not preclude the Secretary from refusing to finance a building which exceeds any living space, amenity, design, or other limitation which the Secretary may prescribe in order to avoid unnecessary or excessive costs. Section 506 also incorporates the energy saving techniques and standards established by the Secretary into Section 509(a) and repeals Section 529. The Committee feels that these codes ensure the construction of adequate housing while allowing builders and borrowers more flexibility at the local level. The aim of this provision is to build less costly housing for low and very low income families.

Section 507: General authority of the Secretary

Section 507 amends Section 510(e) which provides the conditions under which the Secretary may purchase, sell or dispose of property. The provision would allow for the transfer of Section 502 inventory properties for use as rental or cooperative units under Section 515. These units would be transferred to private nonprofit organizations or public bodies with mortgages containing repayment terms of up to fifty years. If the transfer of units contributes to the

provision of housing for very-low income persons, the transfer may be made at the lesser of the appraised value or the Farmer's Home Administration's investment. This provision directs FmHA to approve the transfer of units not readily resaleable within the Section 502 program for use as rentals whenever the units are within reasonable proximity for management purposes and the organization and application is eligible and financially sound. This transfer should only take place in the event that the homes in inventory cannot be transferred to an eligible low or very low income family.

Section 508: Amendment to section 511

Section 508 repeals the provision contained in Section 511 which limits the total principal amount of notes and obligations purchased by the Secretary of the Treasury between July 1, 1956 and October 1, 1969 to not more than $850,000,000.

Section 509: Repeal of section 512

Section 509 repeals Section 512 which authorizes the Secretary to make commitments for contributions pursuant to loans made under Section 503 of no more than $10,000,000 between July 1, 1956 and October 1, 1969.

Section 510: Authorization

Section 510(a) adds a new subsection (a) to which places a limitation of $3,262,000,000 on the amount of loans which may be made or insured by the Secretary during fiscal year 1984. Of this total amount not more than the following amounts are available under subsection (a): 502 loans—2,300,000,000; 504 loans—10,000,000; 514 loans—12,000,000; 515 loans—940,000,000.

Section 510(a) also authorizes to be appropriated not more than the following amounts for fiscal year 1984 under section 513(b): 504 grants—105,000,000; 509(c)—1,000,000; 516—10,000,000; 523—10,000,000.

This subsection also authorizes funds to meets payments on notes or other obligations issued by the Secretary under Section 511 in order to administer the provisions of Sections 235 and 236 of the National Housing Act and Section 8 of the United States Housing Act of 1937.

Section 510(a) authorizes the Secretary, under subsection (c) to enter into rental assistance contracts authorized in Section 521(a)(2)(A) aggregating not more than $230,000,000 during fiscal year 1984.

Section 510(b) and (c) extend the authority provided under Section 515(b)(5) and 517(a)(1) from May 20, 1983 through September 30, 1984.

Section 510(d) repeals Section 521(a)(2)(D) which authorizes the Secretary, the extent approved in appropriation Acts, into enter rental assistance contracts aggregating not more than $230,000,000 under Section 521(a)(2)(A) during the fiscal year ending on September 30, 1982.

Section 510(e) amends Section 523(f) by deleting the provision which authorizes not more than $5,000,000 for this section during

fiscal year ending 1982, and by extending the authority to enter into a loan or contract from May 20, 1983 to September 30, 1984.

Section 510(f) amends Section 523(g) by deleting the authorization of no more than $3,000,000 for fiscal year 1982. Subsection 523(g) was amended to provide that not more than $5,000,000 be made available from the self-help Housing Land Development Fund during fiscal year 1983.

Section 511: Section 515 amendments

Section 511(a) amends Section 515 of the Housing Act of 1949 to provide a new subsection which requires the Secretary to consider the value of a person or family's assets when determining their income. This should be done in a manner that is consistent with the method used by the Secretary of HUD for the value of assets under the U.S. Housing Act of 1937. This provision is based on a finding from the Inspector General's report which stated that many of the tenants residing in these units have substantial assets and is consistent with the Committee's goal of ensuring that assistance be targetted to the most needy persons or families.

The Secretary must also require that housing constructed under Section 515 is modest in design and does not exceed the amount of living space necessary for the expected number of occupants. The Secretary is prohibited from entering into a contract for new units if they exceed the sizes specified in the applicable construction standards established by the Secretary. This provision requires that while assisted housing should not be of inferior quality or design, it should be suitable for the community in which it is built and should not have unnecessary amenities which increase the cost of the units.

Section 511(a) further requires that the Secretary limit increases in contract rents for newly constructed or substantially rehabilitated projects to the lesser of the actual operating cost increases incurred or the amount of actual operating cost increases incurred with respect to comparable rental units in the same market area which are suitable for occupancy by families assisted under Section 515. Where no comparable dwelling units exist, the Secretary has the authority to approve contract rent increases according to the best available data regarding operating cost increases in rental dwelling units. This provision is intended to require that the Secretary allow increases in contract rents only if the operating costs of comparable units are taken into account. This will allow the Secretary to make determinations based on market indicators.

The Secretary must limit cost increases in newly constructed or substantially rehabilitated units to those due to unforseen factors beyond the owner's control, design changes required by the Secretary or the local government, or changes in financing approved by the Secretary. The Secretary should also give preference to projects which are to be located on donated tracts of land if it makes the projects more cost effective. This is not intended to give a preference to larger more affluent communities which may be able to donate land but have a lesser need for very low income housing, nor is it intended to result in the construction of projects on inappropriate sites.

Section 511(a) also requires that management fees not be excessive when a project is managed by the developer or an affiliate of the developer. This provision is the result of the findings of a report by the Office of the Inspector General which states that by forming separate management firms borrowers have increased their profits and circumvented profit limitations specified by FmHA instructions. In cases where the borrower's management firm managed the projects, there were indications that a substantial portion of the management fees represented profit. Excessive fees charged by a borrower's management firm result in unearned profits for the borrower, and eventually result in rental increases which will burden low income tenants and result in additional rental assistance costs to the Federal government.

Subsection (a) further requires that to the extent that rental assistance is available under Section 521(a)(2), not more than 10 percent of the dwelling units which were available for occupancy before the effective date of the Rental Housing Amendments of 1983 and are leased on or after this effective date will be available for leasing by low income families, rather than very low income families. In the case of units which are available for occupancy on or after the effective date of this Act, not more than five percent of the units will be available for leasing by low income families other than very low income families. In no event may units which become available for occupancy under this section after the effective date of the Rural Housing Amendments of 1983 be occupied by families with income above that defined as low income. This provision is consistent with the targetting restrictions imposed on the assisted housing programs administered by HUD and furthers the committee's goal of assisting the most needy of families.

Section 511(b) amends Section 515 to provide that loans may be made to owners who would be otherwise eligible under this section to purchase and convert single family residences to rental units of two or more dwellings. The Secretary is currently authorized to make these conversions. However, this language should encourage low income tenant owners to participate in the activity.

Section 511(c) amends Section 515(a)(2) by deleting the requirement that loans made under Section 515(a) bear an interest rate determined by the Secretary which may not exceed the maximum rate provided in Section 202(a)(3) of the Housing Act of 1959. Section 515(b)(2) is amended by deleting the stipulation that loans made under Section 515(b) must bear an interest rate determined by the Secretary which may not exceed the maximum rate provided in Section 203(b)(5) of the National Housing Act.

Section 511(d) amends section 515(c) by providing that loans made or insured for cooperative housing may be made for detached units including those on scattered sites. The Committee feels that cooperative units on scattered sites may be more appropriate in some communities than multifamily units in smaller, more remote rural areas.

Section 511(e) amends Section 515(c) by providing that a borrower must submit a market survey indicating a need for low and very low income rental housing in the community where the project is to be located and which meets the requirements specified by the Secretary. If the proposed project requires the allocation of rental

assistance payments, the Secretary may only require that the borrower demonstrate that market exists for persons and families eligible for rental assistance payments. After this is established, the Secretary is required to allocate the amount of authority required to make the project feasible, provided that the authority is available. The Office of the Inspector General concluded that FmHA should provide an indepth analyses of market surveys to insure that a need actually exists for rental housing in order to avoid the vacancy problems encountered in many projects which are located in remote areas. The language also prohibits the requirements for dual market surveys which demonstrate that there is a need for moderate income rental housing in the community in case the project must be sold from the government's inventory. This process incurs excessive cost and delay and is unnecessary if an adequate demand exists for very low income.

Section 511(f) amends Section 515(d)(1) which defines the term "housing" to include manufactured home rental parks where either the lots or both the lots and the homes are available for use by occupants eligible under Section 515. The Committee intends that manufactured homes with or without land and manufactured home leased land sites be eligible for assistance under the Section 515 rental program.

The Committee believes that manufactured home rental communities are an appropriate form of housing for rural low income families, elderly and handicapped persons and provide to such persons an opportunity of homeownership without the added financial burden of land ownership.

Section 512: Insured rural housing loans

Section 512(a)(1) amends Section 517(a) to provide that the amount of a loan made or insured under Section 502 to low income families cannot exceed the amount necessary to provide adequate housing which is modest in size, design and cost. The authority to make and insure loans under this section has been extended from May 20, 1983 to September 30, 1984. No loans may be made subsequent to that date unless a prior commitment was made.

Section 512(a)(1) deletes the provision that loans made to persons of low or moderate income may not bear an interest rate which exceeds 5 percent per year, and that loans made to borrowers who are other than low or moderate income may bear interest and provide for insurance or service charges at rates comparable to the combined rate of interest and premium charges in effect under Section 203 of the National Housing Act.

Section 512(a)(2) amends Section 515(b) by making a technical change to revise the numbering of subsection (b)(A).

Section 512(a)(3) deletes Section 517(d) and the second sentence of subsection (e). Section 517(d) authorizes the loan guarantee program which allows the Secretary to insure the payment of principal and interest on loans made by lenders other than the United States and on loans made from or purchased by the Rural Housing Insurance Fund which are sold by the Secretary. The second sentence of subsection (e) provides that the guaranteed loan program be operated separately from the insured loan program and that no funds designated for one program may be transferred to another

program. The Committee intends to have loans made by private lenders insured through HUD's FHA program.

Section 512(b) amends Section 517(h) which provided that any sale of loans individually or in blocks will be treated as a sale of assets for the purposes of Budget and Accounting Act of 1921 although the Secretary acts as trustee, and holds the debt instruments and holds or reinvests repayments. Section 512(b), provides that the Secretary establish and maintain a reserve against losses on loans insured under the Rural Housing Insurance Fund. The Secretary must submit, as a part of the Budget of the United States, a report which provides the proposed amount to be set aside as a reserve for the Rural Housing Insurance Fund, and the estimated amount which might be required to provide interest credits during the term of outstanding loans made from the fund and during the full life of loans proposed to be made from the fund during the coming fiscal year. While the Committee realizes that because of factors such as the transfer and sale of properties and the graduation of borrowers to private lenders, the full amount of the subsidy estimated for 502 loans may not be necessary, this full amount represents the potential long term obligation for the Federal government. Section 512(b) also provides that any transactions with certificates of Beneficial Ownership will be treated under generally accepted budget and accounting practices for participation certificates for purposes of chapter II of Title 31, under United States Codes. The Committee feels that it is essential that Congress must know the full cost of these programs in order to make an informed decision as to the appropriate levels of funding.

Section 512(c) repeals Section 517(n) which provides that guaranteed loans can be made only to borrowers of moderate or above-moderate income.

Section 512(d) repeals Section 517(o) which requires that at least 60 percent of the loans made under Sections 502 and 515 must benefit persons of low income, and that at least 30 percent of the assistance available in any area of any State in a fiscal year must, to the extent practicable, benefit persons with incomes below 50 percent of median income.

Section 512(e) establishes a new Section 517(n) which provides that the Secretary must promulgate rules and regulations which encourage the rehabilitation or purchase of existing buildings in order to provide housing which is economical in cost. The Committee feels that rehabilitation offers a viable and cost effective means of providing adequate housing to very low income families, in areas which have available housing stock.

Section 512(e) also provides a new subsection (o) which requires the Secretary to prescribe criteria which will assure that assistance is provided to families with the greatest need, residing in remote rural areas. The Committee has directed the Secretary to prioritize applications submitted by persons and families based on their degree of need and their current living conditions. The Committee is concerned that the Secretary has not directed sufficient attention to assuring that those most in need receive the services of FmHA. This amendment requires him to establish a process whereby the lowest income persons and families living in the worst housing will be identified and given priority consideration in processing.

To further this end, the Secretary should require owners of rental housing projects financed by FmHA to establish waiting lists for admission, applying the same priority. Housing taken into FmHA's inventory by foreclosure or otherwise should only be disposed of in a manner to benefit low-income persons and families living in inadequate housing unless a buyer fitting that description cannot be found after a reasonable marketing effort.

Section 513: Rental assistance tenant contribution

Section 513(a) amends Section 521(a) of the Housing Act of 1949 by indicating that in the case of a project which is financed under Section 515 or 514 before the effective date of the Rural Housing Amendments of 1983 and receives rental assistance, the rent for tenants receiving this assistance cannot exceed thirty percent of adjusted income. In the case where a 515 loan has been approved before the effective date and where interest credit is provided, the tenant's rent cannot exceed the greater of 30 percent of their adjusted income or the rent level established on the basis of a 1 percent interest rate on debt service. The rent for a unit financed under Section 514 or 515 cannot be increased by more than 10 percent in any twelve month period, unless the increase is attributable to an increase in the tenant's income. Section 513(a) also provides that in the case of manufactured housing where rental assistance is provided, the monthly payment for principal and interest on the manufactured home and for lot rental and utilities cannot exceed 30 percent of income.

Section 513(b)(1) amends the first sentence of Section 521(a)(2)(A) which provides that units financed under Sections 514, 515 and 517 be rented to tenants at rates which do not exceed 25 percent of their income. Section 513(b) requires that tenants contribute the highest of: 30 percent of their monthly adjusted income; or, if the tenants are receiving welfare payments from a public agency, the portion which is identified by the Secretary of HUD under Section 3 of the United States Housing Act of 1937. The rent paid by a tenant cannot increase by more than 10 percent during any twelve month period, unless the increase is a result of an increase in income. Section 513(b)(2), deletes the provision that rental assistance payments are to be made for more than 70 percent of the units in any project, except when the project serves elderly or handicapped persons or farm laborers. The provision giving priority to projects which have 40 percent or fewer of the units receiving rental assistance when approving applications has also been deleted.

Section 513(c) amends Section 530 which provides that the Secretary may not approve any increase in rental payments for units where tenants are paying more than 25 percent of their incomes unless the project owner is receiving or has applied for rental assistance payments. Section 513(c) changes the reference to 25 percent of the tenant's income to 30 percent of the tentant's income.

Section 513(d) amends Section 521 by providing that the Secretary must extend expiring contracts for those units occupied by low income families when entering into contracts for rental assistance. The remaining funds should be used for contracts which assist very low income families occupying projects which are committed after

fiscal year 1983. If additional funds are available, the Secretary should provide additional assistance to existing units which would be occupied by very low-income families. Section 513(d)(2) also authorizes the Secretary to transfer rental assistance contract authority from projects where the authority is unused and not needed to projects where the authority is needed.

Section 514: Rural trainees

Section 514 repeals Section 522 of the Housing Act of 1949, which authorizes the Secretary to provide housing and related facilities for trainees and their families, who are enrolled in courses to improve their employment capability.

Section 515: Technical and supervisory assistance

Section 515(a) amends the last sentence of Section 525(b) of the Housing Act of 1949, which authorizes the Secretary to require repayment of loans made under Section 525 under the terms and conditions he may require when the housing is completed (or sooner.) Section 515(a) deletes the provision which would authorize the Secretary to cancel any part or all of the loan if he determines that it cannot be recovered from the proceeds of a permanent loan made to finance the rehabilitation or construction of the housing. Section 515(b) repeals Section 525(c) which authorizes no more than $5,000,000 for Section 525 grants and no more than $5,000,000 for Section 525 loans for the fiscal years ending June 30, 1975, June 30, 1976, and September 30, 1979. Section 515(b) also repeals the provision that any funds appropriated should remain available until expended and any funds authorized but not appropriated for any fiscal year may be appropriated for any succeeding fiscal year.

Section 516: Condominium housing

Section 516(a) amends Section 526(a) which authorizes the Secretary, in his discretion and under the terms and conditions he may prescribe, to make loans to low or moderate income families for the purchase of condominium units, by deleting the Secretary's discretion in making loans under this Section. Section 516(b) also amends Section 526(c) which authorizes the Secretary in his discretion and under the terms and conditions he may prescribe, to make or insure blanket loans to a borrower of ownership where each unit is eligible for a loan or insurance under Section 526. This provision is amended by deleting the Secretary's discretion in making blanket loans under this section.

Section 516(b) amends Section 526 by providing that the Secretary may not refuse to make or insure a loan under Section 526 unless the project or units to be financed are higher in cost on a per unit basis than single family detached units in the same area, taking into account management and other condominium fees, or if the project or units do not otherwise meet the requirements of the section. The Secretary may not provide financing if it would result in the displacement of low or very low-income persons or families unless relocation assistance is provided for these tenants.

The Secretary should encourage the use of condominium housing for low income persons and families, as it presents a unique opportunity for homeownership to those families who may not be able to

afford a single family detached home. The Committee expects however that the Secretary, in providing financing for condominium conversion, will make every effort to ensure that low income or very low income renters are not displaced and if displacement must occur, these renters are provided assistance for relocation housing.

Section 517: FHA insurance

Section 517 adds Section 531 to Title V of the Housing Act of 1949 to authorize the Secretary to act as an agent of the Secretary of HUD to recommend insurance of any mortgage which meets the requirements of Section 203 of the National Housing Act. The Secretary may also provide assistance under Section 521 to borrowers who are defined as low income in Section 501, in order that they might reduce the down payment or monthly mortgage payment on their loans. The Secretary has the authority to establish loan limits and to provide assistance through a lump sum principal payment or credit at the time of the purchase rather than through periodic payments. The Committee feels that FHA insurance can be utilized to a greater extent in rural areas in order to involve more private lenders in making loans. The authority to assist low income families in obtaining FHA insured mortgages through an upfront write-down or interest rate reduction is a much more cost effective means of providing housing assistance than the current rate administered by FmHA. This would reduce the Federal government's role as a direct lender and would eliminate any long term obligations for subsidy assistance.

Section 518: Rural housing preservation grant program

Section 518 amends Title V of the Housing Act of 1949 by adding Section 532 which is entitled "Housing Preservation Grants".

Section (a) authorizes the Secretary to make grants to eligible grantees which include: private nonprofit organizations, Indian tribes, general units of local government, counties, States and consortia of other eligible grantees. These grantees are all considered equal and the award of funding will be made on the basis of the merits of each application according to the criteria set out by the Secretary. The grants should be used to rehabilitate single family housing in rural areas which is owned by low and very low-income persons or families or multifamily rental properties which serve low and very low-income tenants. The Secretary may also use the modified Section 8 housing assistance payments provided by the Secretary of HUD to minimize the displacement problems often caused by rehabilitation projects. The housing assistance payments are to be provided to families in buildings to be rehabilitated with incomes of less than 50 percent of the median income for the area at the request of the grantee.

Subsection (b) authorizes $100,000,000 for each of the fiscal years 1984, 1985 and 1986 for rehabilitation grants made under this section. The remaining $5,000,000 authorized in Section 513(b)(1) should be used for grants authorized under Section 504. Grant funds appropriated under Section 532 will remain available through the end of the fiscal year after the fiscal year in which they were made available.

Subsection (c) provides that the funds appropriated for the purpose of this section will be distributed by the Secretary to the states on the basis of an allocation formula. The Secretary must issue a regulation containing a formula which is based on the average of the ratios between: the population of the rural areas in that state and the population of the rural areas of all states; the extent of poverty in the rural areas in that state and the extent of poverty in the rural areas of all states; and the extent of substandard housing in the rural areas of that State and the extent of substandard housing in the rural areas of all states. Subsection (c) also provides that any funds which are allocated to a state but uncommitted to grantees will be transferred to the State FmHA office, to be used for rehabilitation grants authorized under Section 504.

Subsection (c)(2)(A) authorized the Secretary to receive statements of activities from eligible grantees and allocate housing payment certificates based on the amount of displacement of very low income persons or families which would result from rental rehabilitation funded under this section. Each grantee would request the use of housing payment certificates in order to avoid the displacement of very low income persons or families currently residing in units rehabilitated by the grantee. Subsection (c)(2)(B) provides that the Secretary may include any terms and conditions he feels are appropriate in making annual contributions contracts for the housing payment certificates. The Secretary is authorized to include a provision which would require the grantee receiving the contract authority to make the authority available to eligible tenants residing in the structures rehabilitated with assistance from this subsection.

Subsection (d)(1) provides that eligible grantees may submit a statement of activity to the Secretary. The Secretary may designate the State FmHA office to receive and award grants to eligible recipients based on the criteria set by the Secretary and allows the program administrator to set a date for the submission of these statements. The statement of activity should describe the activities each entity will undertake and the projected progress in carrying out these activities during the fiscal year. This statement must be made available to the public for comment. Subsection (d)(2) requires the grantee to consult with and consider the views of responsible local officials in preparing the statement.

Subsection (d)(3) requires the Secretary to evaluate the merits of each statement on the basis of criteria set by the Secretary which include the extent to which the proposed program would: serve very low income families; leverage available funds to supplement the Housing Preservation Grant Program; minimize displacement of very low income persons and families; alleviate overcrowding in rural residences inhabited by low and very low income families; and minimize the use of grant funds for administrative purposes. The Secretary may include additional criteria in evaluating the statements and should also assess the demonstrated capacity of the grantee to carry out the program as well as the financial feasibility of the program.

Subsection (e) requires that rehabilitation programs assisted under this section be used to provide loans or grants to owners of single family housing in order to cover the cost of repairs and im-

provements. Loans or grants may also be made to owners of multifamily housing provided that the assistance does not exceed 50 percent of the total costs associated with the rehabilitation of the structure. This assistance must benefit rural residents who are low and very low income persons or families, without displacing the current residents of the units to be rehabilitated. The rehabilitation must raise the health and safety standards to meet those specified in one of the following building codes: the minimum standards prescribed by the Secretary of HUD for mortgages insured under Title II of the National Housing Act; the standards contained in any of the voluntary national model building codes or; in the case of manufactured housing, the standards referred to in section 502 of this Act. Eligible activities may include, but not be limited to:

Provision of adequate plumbing;
Repair of replacement wells or septic tanks;
Preliminary costs related to the installation of central water and waste water systems;
Additions to the existing unit to relieve overcrowding;
Replacement or repair of electrical wiring;
Weatherization;
Exterior repair;
Major structural replacements or repairs; and
Any other improvement or repair deemed necessary and in the public interest.

The owner of a rental structure rehabilitated with assistance under this section may not refuse to rent a dwelling unit in the structure to a family because they receive a housing payment certificate.

Subsection (f) provides that the Secretary must make a review and audit, a least on an annual basis, to determine whether the grantee has carried out its activities in a timely manner and in accordance with any requirements of the section. The Secretary must determine that the grantee has a continuing capacity to carry out the rehabilitation activities in a timely manner and that the housing payment certificates have been administered in accordance with the Secretary's requirements. The Secretary is authorized to adjust, reduce or withdraw allocated funds or take any other action which is appropriate given the findings of the review and audits. Resources already expended on eligible activities cannot be recaptured or deducted from future resources allocated to the grantee. If any funds are recaptured, they must be reallocated to any grantee or grantees selected by the Secretary, durig the same year.

Subsection (g) authorizes the Secretary to prescribe any necessary rules and regulations within ninety days after the date of enactment of this section.

Subsection (h) requires that the Secretary establish procedures which support national historic preservation objectives and assure that any activity which would affect property that is included or eligible for inclusion on the National Register of Historic Places must reasonably meet the standards for rehabilitation issued by the Secretary of the Interior. The appropriate State Historic Preservation Officer must have an opportunity to comment on the specific rehabilitation plan. The Advisory Council on Historic Preservation must also have the opportunity to comment on cases in

which the grantee, in consultation with the State Historic Preservation Council, cannot meet the standards or would adversely affect historic property.

Subsection (i) requires that the Secretary submit a report to Congress no later than one hundred and eighty days after the close of each fiscal year. The report must describe the progress made in accomplishing the objective of the section and summary of the use of funds during the preceding year. Grantees must submit the information necessary for the completion of this report.

Section 519: Miscellaneous

Section 519 amends Title V of the Housing Act of 1949 by adding Section 533, "Review of Rules and Regulations". This section requires that no rule or regulation may become effective unless it has published for public comment in the Federal Register for at least sixty calander days. The Secretary must transmit all rules and regulations to the Chairman and ranking Member of the Committee on Banking, Housing and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House at the time they are sent to the Federal Register for public comment. This subsection does not apply to a rule or regulation which the Secretary issues on an emergency basis. The Committee feels that this provision ensures that there is ample opportunity for comment on any regulations formulated by the Farmers Home Administration without putting unnecessary oversight responsibilities on Congress.

TITLE VI.—PROGRAM AMENDMENTS AND EXTENSIONS

Section 601: Extension of Federal Housing Administration mortgage insurance programs

Section 601 of the bill extends (through September 30, 1985) the authority of the Secretary of Housing and Urban Development to insure mortgages or loans under certain HUD–FHA mortgage or loan insurance programs contained in the National Housing Act. A technical amendment has also been included to make clear, for authorities proposed for extension, that the authority to make commitments to insure under these programs also is extended through September 30, 1985. An extension through September 30, 1983 is proposed for the section 235 program of homeownership for lower income families.

Under existing law, the authority of the Secretary of Housing and Urban Development to insure mortgages and loans under these programs will expire on May 20, 1983. After that date, the Secretary may not insure mortgages or loans under any of the major HUD–FHA insuring authorities contained in the National Housing Act, except pursuant to a commitment to insure issued before that date.

Insuring authorities which will expire on May 20, 1983 and are proposed for extension through September 30, 1985, include those for the following HUD–FHA mortgage or loan insurance programs: title I—property improvement and manufactured home loan insurance; section 203—basic home mortgage insurance; section 207—rental housing insurance; section 213—cooperative housing insur-

ance; section 220—rehabilitiation and neighborhood conservation housing insurance; section 221—housing for moderate-income and displaced families; section 223—miscellaneous housing insurance, including insurance in older, declining urban areas and for existing multifamily housing projects and hospitals; section 231—housing for the elderly; section 232—nursing homes; section 233—experimental housing; section 234—condominums; section 237—special mortgagors; section 240—homeowner purchases of fee simple title; section 241—supplemental loans for multifamily housing projects, health facilities and energy conserving improvements; section 242—hospitals; section 243—homeownership for middle-income families; section 244—mortgage insurance on a coinsurance basis; section 245—mortgage insurance on graduated payment mortgages; and title X—land development. The text of the extension for section 245 appears in the proposed rewrite of that provision in section 324 of this bill.

The proposed extensions of the above-listed mortgage insuring authorities are designed to guarantee the continued availability of FHA mortgage insurance and thus to maintain and enhance the Department's capacity to contribute to achievement of the national housing goal of "a decent home and a suitable living environment of every American family."

Section 235(m) is extended through September 30, 1984 in order to assure that units in the pipeline can be insured. No insurance can be made after that date.

Section 242, the insuring authority for hospitals, is amended to allow hospitals owned by public agencies to be insured.

Extensions have not been included for the following provisions of the National Housing Act: section 235(q) (countercyclical economic stimulus), section 236 (rental and cooperative housing for lower income families), section 222 (mortgage insurance for servicemen), title VIII (armed forces-related housing) and title XI (group practice facilities).

The section 235(q) authority (countercyclical economic stimulus), scheduled to expire on May 20, 1983, is not proposed for extension. This emergency authority has never been activated.

Section 236 was routinely extended until May 20, 1983 by H.J. Resolution 612. It had previously been extended until September 30, 1982 to permit projects in the pipeline to be processed. Most such projects have now been processed or cancelled, and those still in the pipeline have secured commitments which will make possible the provision of insurance after May 20, 1983 pursuant to a commitment to insure made before that date. Thus, there is no necessity to extend the insuring authority.

The program of mortgage insurance for servicemen under section 222 would be permitted to expire on May 20, 1983. Military personnel, Coast Guard personnel and employees of the National Oceanic and Atmospheric Administration certified as requiring housing by the Secretaries of Defense, Transportation and Commerce, respectively, are eligible under this program. However, since the Department of Defense no longer participates in the program, it has fallen into disuse. In FY 1981 only 260 mortgages were insured, and in FY 1982 this number fell to 11.

While the section 244 coinsurance program is proposed for extension, the limitation contained in section 244(d) will be permitted to expire. That provision limits the amount of mortgages and loans which may be coinsured before May 21, 1983, to 20 percent of the aggregate principal amount of all mortgages and loans insured under Title II of the Act each year. The 20 percent limitation applies separately to multifamily and single family mortgages.

With respect to multifamily mortages, HUD anticipates a drop in the overall amount of multifamily mortgage insurance written in the FY 1983–1984 period. This will occur at a time when HUD has developed coinsurance regulations for the purchase or refinancing of multifamily properties (under section 223(f)) and for private lender financing of new construction or substantial rehabilitation (under section 221). The coincidence of the anticipated decrease in the overall amount of multifamily insurance to be written and increased policy and program emphasis upon coinsurance makes the existing 20 percent limitation of section 244(d) an inhibiting factor in carrying out FHA multifamily operations. Expiration of the restriction will permit a more extensive and more effective FHA multifamily insurance program than would otherwise be possible.

With respect to single family insurance, HUD estimates that both applications and the amount of insurance written in fiscal year 1983 and fiscal year 1984 will exceed the fiscal year 1982 level. Although single family operations may continue to work within the 20 percent limit for the present, HUD will be making improvements in its coinsurance regulations with a view toward making the coinsurance approach more attractive to lenders. HUD anticipates a substantial increase in coinsurance activity as a consequence.

The benefits of coinsurance are clear and compelling: it maximizes the role of the private sector, it reduces processing time through delegated processing, and it limits HUD's exposure to losses through risk-sharing. By permitting expiration of the current 20 percent restriction, increased cooperation and direct involvement of the private sector in FHA insurance programs will be enhanced.

The authority to insure armed forces housing under title VIII of the National Housing Act (sections 809–810) is not proposed for extension beyond the current May 20, 1983 expiration date. These programs have been inactive for several years—no insurance was written under their authority during fiscal years 1981 and 1982 and no applications for insurance are currently pending.

Finally, there has been little activity under the Title XI authority to insure Group Practice Facilities, suggesting that whatever need exists is being met adequately by the private market. Accordingly, no further extension of this authority is being sought.

Section 602: Authorization for appropriations to cover losses to the general insurance fund

Section 602 amends section 519(f) of the National Housing Act to authorize the appropriation of such sums as may be necessary to cover losses of the General Insurance Fund. Existing law contains an overall ceiling on the amounts which may be appropriated for this purpose, which would be removed by this amendment.

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Losses sustained as a result of the sale of acquired property are not a function of the amount authorized for appropriations to restore the losses. The losses represent the difference between the purchase price of units acquired through the Department's insurance activities, expenses incurred through maintenance and repair, and the proceeds realized from sale of these properties. The authorization does not limit the loss but merely places a limitation on the amount which may be sought in recompense for losses already sustained. The present authorization limitation requires the Department to seek an increase in the amount authorized for appropriation before an appropriation to restore the losses can be enacted. The proposal would simplify this process by removing the limitation and authorizing the appropriation of the sums necessary for this purpose.

Section 603: Research authorizations

Section 603 authorizes the appropriation of $18 million in fiscal year 1984 and necessary sums for fiscal year 1985 for the Department's Research and Technology Program. Particular areas of study in fiscal year 1984 will include:

The efficiency and effectiveness of assisted housing programs through reforms of existing programs and evaluation of alternative programs;

Issues relating to the Department's mortgage insurance programs, including alternative housing finance mechanisms (such as alternative mortgage instruments), alternative tax and other financial incentives for housing, and the role of secondary mortgage markets;

Encouragement of affordable housing and homeownership by reducing the component costs of housing (costs of development, building, financing, and operating);

The effectiveness of the Department's community development programs;

Better methods of community management and delivery of local government services;

Successful neighborhood strategies;

New or improved approaches to urban economic developing, including the Administration's Enterprize Zone Program; and

Issues related to fair and nondiscriminatory housing.

Inclusion of the $18 million funding authorization for fiscal year 1983 is a technical amendment to reflect the amount which was in fact appropriated for Research and Technology for that year.

Section 604: Special assistance and emergency mortgage purchase assistance funds of the Government National Mortgage Association

In these programs, GNMA borrows funds from the U.S. Treasury to finance mortgage purchases, up to commitment levels approved by Congress. GNMA then places these mortgages in its inventory or sells them to private investors at a discount which reflects current market yields. The difference between the price at which GNMA purchases mortgages and the price at which these mortgages are then sold to private investors is a subsidy to encourage the construction of certain types of housing. No monies have ever

been appropriated to fund this subsidy. GNMA uses the proceeds of mortgage sales to retire its Treasury debt and to finance its operations.

Section 604 repeals sections 305 and 313 of the Federal National Mortgage Association Charter Act, but with a savings clause regarding purchases or commitments to purchase mortgages under these sections prior to their repeal. As a technical conforming amendment section 3(b) of the Emergency Home Purchase Assistance Act of 1974 would also be repealed. The Administration does not intend to reactivate the EMPA function or seek an extension of its SAF commitment authority. The Tandem Program used in SAF and EMPA is an excessively expensive method of increasing the housing supply. Moreover, this costly subsidy often tends to benefit those with little or no need for financial assistance in order to obtain decent, safe and sanitary housing.

Section 605: Elimination of requirement that FHA interest rates be set by law

Section 605 amends the insuring authorities in the National Housing Act which are proposed for extension beyond fiscal year 1983 to allow an insured mortgage or loan to bear interest at a rate agreed upon by the borrower and the lender. These authorities are: title I—property improvement and manufactured home loan insurance; section 203—basic home mortgage insurance; section 207—rental housing insurance; section 213—cooperative housing insurance; section 220—rehabilitation and neighborhood conservation housing insurance; section 221—housing for moderate-income and displaced families; section 231—housing for the elderly; section 234—condominiums; section 240—homeowner purchases of fee simple title; section 241—supplemental loans for multifamily housing projects, health facilities and energy conserving improvements; and title X—land development.

The proposal would repeal section 3 of P.L. 90-301—HUD's interim authority to establish maximum FHA interest rates—as well as section 4 of that Act, which established a commission on interest rates which expired in 1969.

Section (b)(11) amends section 235 of the National Housing Act to provide for continuation of the Secretary's authority to set interest ceilings essentially in the same manner as is authorized under present law. Since the section 235 subsidy is the difference between the actual interest rate on the mortgage and a below market rate set by HUD, to allow negotiated interest rates in this program might prove prohibitively expensive.

The administered ceiling on the FHA contract interest rate has outlived its usefulness. The ceiling is an outdated manifestation of concern that some lenders would take advantage of buyer ignorance and charge an "above market" rate of interest. Mortgage rates were relatively stable in the post World War II years by today's standards, but differed among various regions of the country. This difference relfected the relatively greater demand for funds in some areas and the immobility of mortgage funds across regions. In the interest of promoting a truly national mortgage market and facilitating the flow of funds between regions, FHA attempted to set a national mortgage rate.

Over the years the perception has developed that, by setting a ceiling, FHA determines mortgage interest rates. This is simply not the case. FHA mortgages are sold to investors at market yields. Investors discount the loans to bring the yield up to those available on alternative investments. These discount "points," although they cannot legally be charged directly to the borrower, can be ultimately passed on indirectly, typically in the price charged by the seller.

Mortgage markets are now national in scope and extremely competitive. Homebuyers can readily obtain information on the property and 95 percent of the "appraised value" in excess of $25,000. No amendment to this and other loan-to-value ratio requirements was included in the 1982 Reconciliation Act.

By longstanding administrative practice, the Department has calculated maximum loan-to-value ratios on a basis which included closing costs in "appraised value." Consistent with this practice, the Department intends to include also the amount of the up-front premium as an element of "appraised value" for the purpose of calculation of the maximum loan-to-value ratio. The result of this will be that in the case of loans which are at the maximum ratio before consideration of the up-front premium, the required downpayment will be increased by the percentage resulting from the applicable loan-to-value ratio (5 percent in the case of a loan covered by the ratio provision cited above where the value exceeds $25,000).

Subsection (a) would correct this unintended result by providing in one place the general authority to increase, by the amount of the MIP, the otherwise applicable single family maximum mortgage amount—irrespective of whether the amount is arrived at as a result of the relevant dollar or loan-to-value limitation. Subsection (b) contains the technical conforming amendments to each section of the National Housing Act affected by this provision. Subsection (c) requires the Secretary to make a finding and report to Congress that this action along with the increase in the loan to value ratio will not affect the actuarial soundness of the insurance fund.

In addition to statutory provisions directly addressing downpayment requirements, the amount of the required downpayment is also affected by maximum loan-to-value ratios. For example, section 203(b)(2) of the National Housing Act provides that insured loans may not exceed an amount equal to the sum of 97 percent of the first $25,000 of the "appraised value" of the going rate for a mortgage loan, and can negotiate for themselves a market interest rate. Thus, the ceiling is no longer needed.

The recent volatility in interest rates has made the ceiling extremely difficult to administer. The FHA ceiling must reflect current market interest rates if homebuyers are to obtain mortgage credit. When interest rates move by as much as five discount points within a week, as they have in the recent past, it becomes increasingly difficult to administer the contract interest rate effectively.

In summary, the FHA will follow the conventional mortgage market by letting the borrower and lender determine the mortgage interest rate.

Section 606: Amendment to section 367(b)(2)(A) of the Multifamily Mortgage Foreclosure Act of 1981

Section 606 allows for the use of Section 8 certificates in assisting tenants of foreclosed projects.

Section 607: Treatment of FHA single family premiums

Section 607 makes certain technical corrections relating to the treatment of mortgage insurance premiums (MIP's) under HUD's single family mortgage insurance programs. HUD is proposing to implement by regulation its authority to charge a single, lump-sum MIP covering the full term of the mortgage at the time the loan is closed. As part of implementing the new system, HUD proposed last year to amend certain sections of the National Housing Act to increase the otherwise applicable maximum dollar mortgage amounts by the amount of the MIP, and to exclude the amount of the premium from "cost of acquisition" for purposes of determining minimum down payment requirements. Congress enacted these proposals as section 201 of the Omnibus Budget Reconciliation Act of 1982.

One of the purposes of the amendments was to permit the homebuyer to add the amount of the MIP to the amount of the insured loan, thereby assuring that implementation of the new system would not increase existing downpayment requirements. Because of their placement, however, the amendments did not completely fulfill this intent.

Section 608: GNMA and FHA limitations

Section 608 amends section 306 of the National Housing Act to allow GNMA to make commitments to issue guarantees up to the aggregate amount of $68,250,000,000 during fiscal year 1984.

Section 531 of the National Housing Act is amended to allow FHA to make commitments to insure loans and mortgages up to the aggregate principal amount of $46,000,000,000 in fiscal year 1984.

Section 609: Repeal of requirement to publish prototype housing costs for one- to four-family dwelling units

Section 609 repeals section 904 of the Housing and Community Development Act of 1977, which requires HUD to prepare and publish annually prototype housing costs for one- to four-family dwelling units for each of the approximate 650 housing market areas in the United States.

Preparation and publication of prototype costs under section 904 is expensive and unnecessary. The legislative history provides no specific reason for the requirement to prepare and publish this information other than for "public" information. These figures are not used for operation of any HUD program. Neither the general public nor any public agency or private entity has expressed the view that the information is useful. The main area of comment has been from mortgagees, builders and developers challenging the accuracy of the figures.

Section 610: Increased loan limits for manufactured homes and lots under title I of the National Housing Act

Section 610(a) of the bill amends section 2(b) of the National Housing Act to increase the maximum loan limits for manufactured homes, lots and home-and-lot combinations under the title I program. The maximum loan amounts would be increased to $40,500 for manufactured homes (60 percent of the section 203(b) mortgage limit); $13,500 for lots (20 percent of the 203(b) limit); and $54,000 for combination home and lot loans (80 percent of the 203(b) limit). HIgh-cost area adjustments would be authorized as described below. The revised home limits would apply to all manufactured homes, irrespective of the number of modules.

These increases in the title I loan limits are needed to reflect the rising costs for manufactured homes, land acquisition and site preparation. Based on present trends, the price of a new multi-module home is expected to average $37–39,000 by 1984. Developed lot prices vary greatly from one part of the nation to another, but amounts in the range of $12–14,000 are not unusual.

The new loan limits are related to the basic mortgage limit for single family homes under section 203(b) of the Act, but are adjusted for the lower sales prices and different site development and foundation requirements where manufactured housing under the title I program is involved. Since there is a considerable overlap in unit sizes and sales prices between single-module and multi-module homes, there is not longer any necessity for differing maximum loan amounts for single-module and multi-module homes.

Subsection (b) would authorize the Secretary to increase the maximum limits for lot loans and for combination home-and-lot loans in high-cost areas to the extent the Secretary deems necessary. However, the percentage increase from the basic loan limits could not exceed the percentage by which the maximum loan amount for a one-family residence in the area is increased by the Secretary under section 203(b)(2) of the National Housing Act. The Secretary is authorized to increase the section 203(b) dollar limit for one-family residences on an area-by-area basis by up to the lesser of 133⅓ percent of that limit or 95 percent of the median one-family house price in the area.

This provision would make title I insurance available in those market areas where the higher costs of land acquisition and site development are the major factors limiting the program's usefulness. This subsection would replace the Secretary's existing authority under section 2(b)(2), which limits high-cost area adjustments for lot loans and combination loans to $7,500. The provision in section 2(b)(2) authorizing the Secretary to increase the dollar limit on loans for manufactured homes or lots in Alaska, Guam or Hawaii by up to 40 percent would remain unchanged.

Manufactured homes constitute a significant portion of the housing market. In 1982, manufactured homes represented more than 25 percent of all new single family homes constructed in the United States. This proposal would permit the Department to serve better the needs of low- and moderate-income homebuyers by expanding their options to purchase a home.

Section 611: Authority for refinancing manufactured homes under title I of the National Housing Act

Section 611 amends section 2(b) of the National Housing Act to permit owner-occupied manufactured homes or home and lot combinations which were purchased without title I insurance to be refinanced under title I.

The Housing and Community Development Amendments of 1981 amended title I to authorize the refinancing of a manufactured home lot under title I, even if it was previously purchased without such assistance, so long as the refinancing is in connection with the purchase of a home to place on the lot. This proposal would extend this refinancing authority to situations where the home (or home and lot combination) was previously purchased without title I insurance, if the home was constructed in accordance with standards established under section 604 of the National Manufactured Housing Construction and Safety Standards Act of 1974, is owner-occupied and otherwise meets the requirements for title I insurance.

The proposal is consistent with the policy of eliminating unnecessary restrictions and discriminatory treatment of manufactured housing. It would permit manufactured homes to be treated the same as site-built homes with regard to refinancing under an FHA insurance program.

Section 612: Change in maximum loan-to-value ratio for modestly priced single family homes

Section 612 amends section 203(b)(2) of the National Housing Act to increase the maximum loan-to-value ratio for homebuyers purchasing modestly-priced single family homes.

The current loan-to-value provision in section 203(b)(2) establishes, for most cases, a maximum mortgage amount on a one-to four-family residence as the sum of 97 percent of the first $25,000 of appraised value and 95 percent of such value in excess of $25,000 (subject to the maximum dollar limits prescribed in section 203(b)(2)). Section 612 would permit a maximum mortgage amount of 97 percent of the first $50,000 of appraised value and 95 percent of such value in excess of $50,000 again subject to the maximum dollar limits.

The amendment would significantly reduce the downpayment requirement for purchasers of modestly priced single family housing. Reducing the initial cash investment should permit more low- and moderate-income, first-time home buyers to own their own homes.

The Committee is concerned that this reduction in the required downpayment not result in the FHA insurance program facing excessive insurance claims. Thus the bill requires the Secretary to find and report to Congress that this reduced downpayment will not adversely affect the actuarial soundness of the FHA fund.

Section 613: Non-occupant single family mortgagors

Section 613 provides higher maximum mortgage amounts for non-occupant owner one- to four-unit dwellings insured under section 203(b) of the National Housing Act.

Present law limits the principal amount of an owner-occupant mortgage which may be insured under section 203(b) to the lesser

of specified dollar amounts or amounts resulting from specified loan-to-value ratios. Thus, the maximum insurable amount for a typical single family home is the lesser of $67,500 or the sum of 97 percent of the first $25,000 of value and 95 percent of the remainder. Section 203(b)(8) of the Act limits the maximum insurable amount for investor-owners to 85 percent of the owner-occupant ceiling. Thus, for a typical single family home, the limit is 85 percent of $67,500, or $57,375.

This amendment would set the investor limit at the lesser of the otherwise applicable dollar amount or 85 percent of the appraised value of the property as of the date the mortgage is accepted for insurance. This would make the maximum dollar amount which may be insured for investors the same as that for owner-occupants, while at the same time restricting the percent of value which could be insured for investor-owners to 85 percent of appraised value. The proposed change would help stimulate investor interest in one-to four-unit dwellings, thereby resulting in increased rental housing supply.

Section 614: Premium charges for insurance of alternative mortgage instruments

Section 614 allows the Secretary to fix insurance premiums separately for the different alternative mortgages subject to the current cap of one percent.

Section 615: Shell home construction

Section 615 of the bill amends section 203(k) of the National Housing Act to permit the Secretary to insure, on a coinsurance basis pursuant to section 244 of the Act, mortgage loans (including staged advances made during construction) for the purchase and construction of single family "shell homes" for occupancy by the homebuyer. No more than 30,000 mortgages covering shell homes could be insured pursuant to this authority.

The authority would be similar to that now provided in section 203(k) for the rehabilitation of family dwellings. The insured advances ordinarily would cover the costs of acquisition and preparation of the home site; purchase of and construction by a contractor of the "shell home;" and exterior/interior finishing work, some or all of which may be done by the homebuyer.

At the time of closing for purchase of the lot, the lender would release only those funds needed to finance the acquisition and preparation of the site and the purchase and construction of the "shell." The remaining mortgage proceeds would be disbursed only at various stages based upon the lender's inspection and certification that the completed work met all applicable HUD and local standards.

The maximum mortgage limit for a shell home would be limited by the provisions of section 203(b)(2) which apply to the basic FHA single family mortgage program. As was proposed by the Department for FY 1983 for all FHA single family programs (except section 235), and is proposed by section 306 of this bill, the interest rate on shell home loans would be a matter to be negotiated by the borrower and the lender.

The Secretary would encourage borrowers, to the maximum extent possible, to contribute their own labor to the completion of the home. The amount of work to be done by the buyer would depend on his or her relative skill levels. A contribution of labor would reduce the amount of the mortgage, increase the borrower's equity, and make homeownership more affordable.

Innovative self-help housing programs to help homebuyers reduce the cost of home purchases have been developed throughout the country. They have included the use of modular housing and prefabricated and other types of partially constructed housing, in addition to shell housing. These types of self-help programs in the non-FHA market are often unavailable to homebuyers traditionally served by HUD—moderate-income and first-time buyers—because of the cost of high interest rates on interim or construction financing and the lack of guaranteed permanent, long-term financing after completion of construction. This proposal is designed to make this type of housing alternative available to the traditional FHA homebuyer and, thus, extend the availability of affordable housing to many more Americans.

Section 616: Payment of claims without HUD acquisition of title

Section 616 amends section 204(a) of the National Housing Act to give HUD discretion to permit mortgagees to submit claims on foreclosed insured single family properties and be paid without transferring title to HUD.

Under the current system, the mortgagee must transfer title or assign the mortgage to HUD before a claim for the full amount of indebtedness can be paid. The mortgagee acquires title after default by either a deed in lieu of foreclosure or by bidding the property's outstanding indebtedness at the foreclosure sale and being the highest bidder. Title is then transferred to HUD. Upon conveyance of title, HUD pays 90 percent of the claim (i.e., 90 percent of the outstanding indebtedness). HUD also reimburses the mortgagee for operation, maintenance and a portion of the foreclosure expenses. Once title is determined to be marketable, HUD pays the remaining 10 percent. Upon transfer of title, HUD is responsible for holding costs, marketing and sale of the property.

Subsection (a) would permit HUD to pay off the insurance claim without requiring transfer of title, where the property is sold at foreclosure for at least its fair market value (FMV), with such adjustments as the Secretary deems appropriate. Mortgagees would continue to be required to notify the Secretary of default and the institution of foreclosure. Before the foreclosure sale, HUD would establish the property's FMV through use of an appraiser or by other appropriate means, and make any needed adjustment to that amount. The amount HUD would pay to the mortgagee should foreclosure be necessary would be the lesser of the difference between (1) the outstanding indebtedness and the adjusted FMV or (2) the outstanding indebtedness and the sale price received at the foreclosure sale. HUD would continue to reimburse mortgagees for operation, maintenance and a portion of the foreclosure expenses. Thus, assuming an insured property with an adjusted FMV of $20,000 which is sold for that amount and an outstanding indebtedness of $30,000, HUD would pay the mortgagee $10,000, plus reim-

bursement for expenses. If a bid at the foreclosure sale were received for $21,000, HUD would pay $9,000, plus expenses.

If no bids were received at the foreclosure sale for at least the property's adjusted FMV, the mortgagee would bid at the sale, transfer title and file a claim with HUD in accordance with the current program. Taking the example above, if a bid were received for $9,000, the mortgagee would bid more and convey title to HUD. HUD would then pay the mortgagee as it does now under the current program.

The proposed system would be implemented by regulations as a standard feature of all single family insurance programs, and would apply with respect to mortgages insured pursuant to commitments issued on or after the provision's effective date, and, with mortgagee approval, with respect to insured mortgages for which commitments were insured before that date. Claims where title is acquired by the mortgagee through a deed in lieu of foreclosure would be processed in accordance with current practice.

As with the current program, if a default were due to circumstances beyond the mortgagor's control, the Secretary would be able to take an assignment of the mortgage as provided by section 230 of the National Housing Act. Claims on assigned mortgages would be paid to mortgagees in accordance with current practice. In addition, mortgagors would remain eligible for Temporary Mortgage Assistance Payments as provided by section 230 of the Act. This proposal would not affect the coinsurance program under section 244 of the National Housing Act.

For insurance claims paid under the new system, the proposal would reduce HUD outlays significantly. HUD would not be responsible for holding, marketing and sale costs for properties sold at foreclosure for at least the adjusted FMV. In addition, unlike the current system, HUD would only be paying a portion of the total outstanding indebtedness at the time the claim is paid. Thus, upfront outlays and overall costs would be cut. This approach is consistent with the Administration's policy of making use of private sector expertise wherever possible. Not only would the Federal role in free market activities be reduced to the greatest extent possible, but also the procedure would be similar to that used by the private mortgage insurance industry. In addition, because the foreclosure sale and subsequent availability of the property for resale would be expedited, the potentially deleterious effect on the surrounding neighborhood from the property standing vacant for a long period of time would be reduced.

Section 617: Discretionary authority to regulate rents or charges

Section 617(a) removes language in section 207 of the National Housing Act mandating that the Secretary regulate project rents and rates of return, and would substitute discretionary authority in the Secretary to provide for such regulation. This change (and the parallel amendment of section 234(d)(2) contained in subsection (b)) would conform these authorities to other National Housing Act multifamily authorities (sections 220(d)(2)(A), 221(D)(4), and 231) which provide for discretionary authority to regulate rents and charges.

The purpose of these changes is to permit the Department to deregulate rent levels in unsubsidized, insured projects. Deregulation is expected to help assure the financial stability of insured projects, and will reduce administrative costs for the Department by eliminating the review and processing of applications for rent increases.

This deregulation would apply to existing mortgages as well as to future unsubsidized project mortgages. After appropriate regulatory changes are promulgated pursuant to these amendments, existing mortgagors would be invited to amend their regulatory agreements to remove requirements for HUD approval of rent increases. The Department would, however, reserve the right to resume regulation of rents and charges for any such project in the future.

Section 618: Mortgage insurance for manufactured home parks for the elderly

Section 618 amends section 207(b)(2) of the National Housing Act to permit the insurance of manufactured home parks designed exclusively for occupancy by the elderly. Present law states that the insurance of section 207 mortgages is intended to facilitate particularly the production of rental accommodations "suitable for family living." Section 207(b)(2) goes on to prohibit the provision of insurance under section 207 unless the mortgagor certifies under oath that there will be no discrimination "by reason of the fact that there are children in the family. . . ."

The amendment would retain this basic rule, but would provide language clarifying that exception may be made with regard to manufactured home parks designed exclusively for the elderly. Recent surveys indicate that about one-third of all manufactured home units are occupied by elderly persons. Since section 207 is the only authority for insuring manufactured home parks, the change in section 207(b)(2) is necessary to meet the need for insurance to develop parks designed, constructed and managed for occupancy exclusively by the elderly.

Section 619: Removal of refinancing limitations on certain multifamily projects

Section 619 amends the mortgage limit provisions of sections 220(d)(3), 221(d)(3) and 221(d)(4) of the National Housing Act to facilitate refinancing to perform substantial rehabilitation. Currently under these provisions, the limits on mortgages for substantial rehabilitation of properties are based upon the sum of the cost of repair plus the value of the property before rehabilitation. However, where there is an existing mortgage, and application to insure a new mortgage under one of these provisions is made, the mortgage limits would be based upon the sum of the estimated cost of repair plus the existing indebtedness (rather than the value of the property before repair). The amendment would delete the latter formula, so that the mortgage limits would be the same for refinancing as it is for new financing for substantial rehabilitation.

The limitation involving existing indebtedness for refinancing in the current laws prevents owners from realizing any of their equity if they wish to rehabilitate a project and retain ownership. This

forces sales of the properties if the owners are to realize any equity from the projects. This limitation is contrary to a policy of encouraging rehabilitation and retention of rental property by present owners. As a result of this inequity, many projects requiring rehabilitation cannot receive the benefits of rehabilitation without the sale to another owner.

Section 620: Assignment of section 221(g)(4) mortgages to GNMA

Section 620 amends section 221(g)(4) of the National Housing Act which permits mortgagees holding section 221 mortgages which are not in default to assign them—twenty years from the date of insurance endorsement—to the Secretary, and to receive the benefits of insurance.

The purpose of section 620 is to authorize the Secretary to direct mortgagees exercising this assignment option to deliver the mortgage and credit instruments *directly* to the Government National Mortgage Association. Upon such an assignment to GNMA, the rights of the mortgagee would be identical to those provided in the present law. The proposal would, however, establish a more effective provess within HUD for dealing with these assignments. GNMA, acting as agent for the Secretary, would take delivery of the mortgages. However, FHA would continue to process the claims on these mortgages and assure that all assignments are legally sufficient and properly completed. GNMA would pay for them with debentures issued pursuant to the current procedure outlined in section 221(g)(4). These debentures would be debited against the FHA fund. Upon sale of the loans, GNMA would provide the proceeds to FHA. GNMA would be reimbursed for all administrative costs.

Without this amendment, FHA could continue to be responsible for taking assignment and servicing these mortgages, but an increase in staffing in HUD's Office of Finance and Accounting would be required, since that office is not prepared to take on the additional responsibility caused by the forthcoming eligibility of numerous section 221 mortgages for 20-year assignment.

Explicit statutory authority to instruct mortgagees to transfer these mortgages directly to GNMA would eliminate the paperwork and time delays within HUD involved in requiring receipt of the mortgages by the Office of Finance and Accounting, and subsequent transfer to GNMA for purposes of handling debenture issuance and subsequent sale of the mortgages.

GNMA has greater experience in handling such sales, and will also be in a position to "space" its sales, so that HUD mortgages will not be sold in competition with GNMA's own mortgage sales.

Section 621: Repeal of section 221 buy-back provision

Section 621 amends section 221(g)(4) of the National Housing Act to eliminate the "buy-back" feature of that provision with respect to commitments to insure under section 221 entered into on or after the effective date of the Housing and Community Development Act of 1983. Section 221(g)(4) now permits mortgagees to assign to HUD current mortgages which are in their 20th year of amortization. HUD exchanges the mortgages for debentures at the going rate for the face value of the outstanding debt because of the

current high interest rates, it has become more and more advantageous for mortgagees to assign mortgages to HUD and take debentures at the "going rate" of interest. This proposal would avoid expected future losses to the FHA insurance funds based on business transacted after the provision's effective date.

Section 622: Federal Housing Administration insurance for condominium units

Section 622(a) changes the restrictions on the number of investor owned units in a condominium by requiring that 80 percent of the Federal Housing Administration insured units be owner occupied.

Section 622(b) allows the mortgage limits to equal those for a single family home in that area.

In the case of a unit in a project which was converted from rental housing, no insurance can be provided unless the conversion occurred more than one year prior to the application for insurance or the applicant was a tenant, or the conversion was sponsored by a tenants organization representing a majority of the householders in the project.

Section 623: Graduated payment mortgages for multifamily and single family housing

Section 623 amends section 245 of the National Housing Act to consolidate the separate authorities now contained in sections 245 (a) and (b) into a single graduated payment mortgage (GPM) authority for one- to four-family dwellings in accordance with the more generous limitations now contained in section 245(b), and to eliminate certain restrictive features of the present section 245(b) GPM program. In addition, amendments are proposed in a new subsection (c) to make possible the use of GPM's for multifamily projects.

The proposed revisions to section 245(b) would delete the threshold requirement that a mortgagor be unable reasonably to afford to finance a purchase by means of any other mortgage insurance program. This change would make any otherwise qualified mortgagor eligible for an insured graduated payment mortgage.

The requirement limiting section 245(b) insurance to mortgagors who have not owned dwelling units within the preceding three years would be stricken.

Finally, restrictions on the number of mortgages or the aggregate amount of initial principal obligation of mortgages insured under section 245 are also proposed to be removed.

Section 245(c) as proposed to be amended would provide authority for GPM's for multifamily insured projects. A major deterrent to the production of multifamily housing is the high cost of financing. Availability of GPM's would assure lower principal and interest payments on the mortgage in the early years of a project. Later, as debt service payments increased, reasonable rental increases would cover these costs. Use of the GPM approach in the multifamily context would assist the sluggish rental housing market without the help of Federal subsidies.

GPM's for multifamily projects would not, however, have requirements identical to those applicable to single family insuring authorities. The initial principal obligation of a multifamily mort-

gage would not be permitted to exceed the percentage of value or replacement cost required by the particular title II insuring authority with which the GPM authorization was linked. During the term of the mortgage, the principal obligation (including interest deferred and added to principal) would not be permitted to exceed the property's projected value at any time.

Projected value of a multifamily project would be determined in the same manner as under the current section 245 for single family dwellings—by means of a HUD calculation based on the initial value of the property, projecting increased value at a rate not to exceed 2½ percent per year.

Authority under section 245 would expire September 30, 1985.

Section 624: Adjustable rate mortgages for single family housing

Section 624 amends the National Housing Act by adding a new section 247 to provide authority for HUD to insure single family Adjustable Rate Mortgages (ARM's) on a limited basis. Under the authority, insurance activity would be limited to 125,000 mortgages in any fiscal year. Interest rate adjustments would be indexed to a national interest rate index which the Secretary of HUD would specifically approve in regulations. This authority would expire September 30, 1985.

These FHA-insured adjustable rate mortgages would include safeguards for the consumer. To protect participating howeowners, statutory limits would control the size and frequency of interest rate adjustments. A limit of one adjustment per year, with maximum increases in the interest rate of 1 point a year and 5 points over the life of the mortgage, would be established. The mortgagee would be required to provide information to the mortgagor describing particular features of the variable rate mortgage, including a hypothetical "worst case" payment schedule.

At present, HUD cannot insure a mortgage financed with a variable interest rate. When inflation rates and interest rates are high, the ARM is likely to become a primary mortgage instrument available to a purchaser in the conventional market. In that event, it would be desirable for FHA to be able to offer a choice between ARM's and fixed-rate mortgages.

Section 625: Shared appreciation mortgages—single family

Section 625 proposes a new section 248 of the National Housing Act which would provide authority for HUD to insure Shared Appreciation Mortgages (SAM's) for single-family housing, including cooperatives. Insurance activity would be limited to 50,000 mortgages in any fiscal year.

Because of current economic conditions, including high and volatile interest rates, alternative mortgage instruments such as the SAM should be insurable by FHA in order to supplement the standard, fixed-rate mortgage, and to provide homebuyers with an alternative to the Department's Graduated Payment Mortgage (GPM) program and the proposed Adjustable Rate Mortgage (ARM). SAM's make possible substantial reductions in down payments, early year monthly mortgage payments or both, in return for a percentage share of any appreciation accruing to the property. The SAM is particularly well suited to prospective secondary

market purchasers; to the extent effective yields are keyed to property appreciation, such mortgages in most cases will provide a direct hedge against inflation.

Under this amendment a lender's share of the appreciated value of the property or share in the cooperative will be due and payable at the time the insured property is sold or transferred, or, in the event there is no such sale or transfer, upon payment of the mortgage.

The Secretary shall prescribe safeguards for buyers and owners which will include maximum sharing provisions and full disclosure of the terms and conditions of the mortgage contract.

In the event of a default, the mortgagee will have a right to make an insurance claim, but insurance benefits will not include the mortgagee's share of net appreciated value.

This proposal reflects HUD's intent to serve first-time homebuyers, and to generally upgrade the Department's insuring authority to be responsive to current needs and effective in the current mortgage market.

Section 626: Shared appreciation mortgages for multifamily housing

Section 626 amends the National Housing Act by adding a new section 249 to provide authority for HUD to insure Shared Appreciation Mortgages (SAM's) for multifamily housing. This authority would expire September 30, 1985. In addition, subsections (b) through (e) would amend sections 207(c)(3), 220(d)(4), 221(d)(6), and 231(c)(5), respectively, to allow HUD discretion to insure loans which do not completely amortize over the loan term, whether or not a multifamily SAM mortgage is involved.

Under the SAM approach permitted by section 626(a), the multifamily developer would benefit from a lower interest rate on the mortgage loan, in return for the lender's receiving a share of any appreciation in the value of the property.

Recent economic conditions have made the production of multifamily rental housing difficult, and lenders remain cautious. A particular problem facing the multifamily housing industry is the reluctance of lenders to invest in fixed-rate mortgages of 30 or 40 years duration. Alternatives to traditional long-term mortgage instruments need to be insurable by HUD in order to stimulate unsubsidized rental construction.

The multifamily SAM proposed would allow HUD to insure loans of 15 years or longer which have level payment amortization schedules which would completely amortize in 30 years or less. Mortgagors would be allowed to take advantage of the generally lower interest rates available for shorter term financing. The lender's share of the appreciated value would be due and payable at the time the insured property is sold or transferred or at the expiration of the loan term.

Used either in tandem or separately, the multifamily SAM proposal and the proposed discretion in the Secretary to insure mortgages which do not provide for complete amortization will substantially lower the monthly mortgage payments on multifamily loans and thereby encourage the production of rental housing.

Section 627: Demonstration authority to insure home equity conversion mortgages for elderly homeowners

Section 627 amends title II of the National Housing Act by adding a new section 250 to authorize the Secretary to insure up to 1,000 home equity conversion mortgages for elderly homeowners on a demonstration basis. These mortgages would reduce the financial hardships of elderly homeowners by permitting them to tap accumulated equity to meet expenses such as paying maintenance, tax, utility and other living expenses without being forced to move. The authority to insure the mortgages would expire September 30, 1986.

The increasing number of elderly persons has far-reaching ramifications which have been chronicled by many studies, articles, public and private debates, and governmental inquiries. The need to develop new programs for elderly homeowners is underscored by the fact that a significant portion of the elderly population has substantial home equity, but is burdened by limited incomes and high housing costs. The proposal would demonstrate the feasibility and desirability of insuring home equity conversion mortgages as a means of addressing this problem.

Although home equity conversion mortgages are a relatively new concept, they appear to offer a reasonable way of improving the income level and quality of life of a significant number of elderly homeowners by providing access to accumulated equity. Programs have been initiated in California, Wisconsin, New York, and New Jersey by public or not-for-profit groups, with the assistance of private or public contributions. The programs include the marketing of the mortgages, interest rate reduction opportunities, and the provision of interest-free or reduced interest rate deferred loans for home rehabilitation. There is currently in the planning and organizing stage a major private endeavor designed solely for the purpose of financing home equity conversion mortgages.

It is too early to evaluate the effect and scope of these programs. However, initial results support the view that home equity conversion mortgages can meet the legitimate needs of some elderly homeowners. These early assessments indicate, also, that public and private entities want HUD to take a more active role in the area of home equity conversion mortgages.

The demonstration program would be designed to: (1) concentrate use of FHA-insured equity conversion mortgages in a few geographic areas and provide guidance, as needed, to encourage participation of mortgage lenders and increase their familiarity with the program; (2) identify and evaluate various forms of home equity conversion mechanisms to assure that the interests of homeowners, lenders, investors and the Federal government are appropriately protected; (3) ascertain whether there is a need for a HUD role and, if so, the appropriate extent of HUD involvement in this area; and (4) determine the extent of need and demand for equity conversion financing.

To ensure that effective consumer protections are afforded elderly homeowners who may wish to participate in the program, participating lenders would be required to provide each prospective borrower at the time of application with a written statement ex-

plaining the home equity conversion mortgage, including the type of mortgage being offered, its specific terms and a clear explanation of its effect on such matters as tax and estate planning and eligibility for certain government benefits, grants or pensions.

Subsection (a) sets forth the purposes of the demonstration program to include: the insuring of home equity conversion mortgages to assist elderly homeowners in converting a portion of their home equity into liquid assets, and the securing of data to determine the extent of need for the program and the appropriate scope and nature of the Secretary's participation in the home equity conversion mortgage market.

Subsection (b) sets forth definitions of "elderly homeowner" and "home equity conversion mortgage", and subsection (c) would authorize the Secretary to insure such mortgages after a determination that such mortgages, in addition to having the potential to meet the special needs of elderly homeowners and increase participation by private lenders, include safeguards for mortgagors to offset the special risks of such mortgages.

Subsection (d) prescribes the requirements for eligibility of a mortgage, including that the mortgage be secured by a property designed principally as a one-family residence and that it be executed by a mortgagor who is the owner-occupant of the property and who meets the prescribed minimum age. The maximum mortgage would be limited to that established for a one-family residence in section (b)(2) of the National Housing Act and may not exceed 90 per centum of the appraised value of the property. The mortgage would permit the interest rate to be fixed or adjusted periodically as agreed to by the parties and would contain provisions for full satisfaction of the obligation satisfactory to the Secretary.

Subsection (e) establishes that mortgages insured under this section are eligible for insurance benefits provided in section 204 of this Act.

Subsection (f) contains the consumer safeguards noted above.

Subsection (g) limits the Secretary's authority to insure mortgages under this section to a total number of mortgages not to exceed 1,000, and would set September 30, 1986 as the final date for insurance of such a mortgage, except for commitments to insure which are issued on or before that date.

Subsection (h) authorizes the Secretary to enter into such contracts and agreements and to undertake such studies as the Secretary determines are appropriate to the purpose of the demonstration.

Subsection (i) provides for preemption of any State constitution, statute, court decree, common law, rule or public policy limiting or prohibiting sharing appreciation, increases in outstanding balances after execution of the mortgage, disbursement of mortgage proceeds over an extended time, or requiring that the term of the mortgage be fixed.

Subsection (j) authorizes the Secretary to make any disbursements to the mortgagor required by a mortgage insured under this section or by an ancillary contract in the event of default by the party responsible for payment. The Secretary is further authorized to take any action necessary to obtain repayment of such disbursements including, but not limited to: accepting an assignment of the

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insured mortgage, calculating the amount and making the payment of an insurance claim on such assigned mortgage, requiring a junior mortgage from the mortgagor to secure repayment of funds advanced by the mortgagor, and imposing premium charges. Actions undertaken by the Secretary would preempt any State or local law prohibiting or limiting such actions. Payments would be made from the General Insurance Fund.

Section 628: Prepayment

Section 628 adds to Title II of the National Housing Act instructions regarding the evaluation of requests by project owners for the prepayment of the mortgage.

The Secretary may not accept an offer of prepayment unless the project no longer meets a need for low income rental housing in the area or that the needs of the families in the project can more efficiently and effectively be met through other federal housing assistance. The tenants must be notified of the prepayment request and provided opportunity to comment. There must be a relocation plan that will provide comparable housing for tenants who will be displaced.

In the case of prepayments where the Secretary's approval is not required, the Secretary may offer assistance under Section 8 to prevent the owner from prepaying.

Section 629: Structural defects in VA-approved FHA-insured new homes

Section 629 amends section 518(a) of the National Housing Act, which authorizes the Secretary to make expenditures to correct or compensate for structural defects in single family homes which were approved for FHA insurance prior to construction. As amended, section 518(a) would specify that the Secretary may also correct or compensate for structural defects in FHA-insured new homes which were approved for loan guaranty by the Veterans Administration prior to construction.

Section 203 of the National Housing Act states that VA loan guaranty, insurance or direct loan approval prior to the beginning of construction may be substituted for the Secretary's approval. The proposal would clarify that VA approval is the equivalent of the Secretary's for purposes of correcting or compensating for structural defects.

Section 630: Time of payment of mortgage insurance premiums

Section 630 amends section 530 of the National Housing Act to clarify that the Department's obligation to collect mortgage insurance premiums on a monthly basis, and to charge interest for late payment of monthly premiums, applies only to the Department's single family programs. The amendment would permit continuation of the existing practice of collecting premium payments from multifamily mortgagees on an annual basis, with interest payable only in the case of later remittance of the annual payment. Monthly collection of premiums would, of course, not apply in the case of mortgages subject to up-front premium collection requirements.

In the past, HUD has not required monthly collection of premiums for its multifamily mortgages. Premiums for those programs

are paid by the mortgagor in advance and are escrowed by the mortgagee. Collection of these premium payments on a monthly basis would increase paperwork and would be staff-intensive. It would also unnecessarily disrupt existing finance and accounting operations, which are geared to annual receipt of such payments.

As amended, section 530 would continue to require that premiums be paid "promptly upon their receipt from the borrower" in the case of the single family programs, but would require, for all other insuring authorities, that premiums be paid "promptly when due to the Secretary" (i.e., annually). Interest payable to the Secretary would continue to be required for late payment of premiums, but such interest would accrue beginning twenty days after the mortgagee's receipt of premium payments from the borrower in the case of single-family mortgages, while in the multifamily programs, interest would be due for the period beginning twenty days after the premium payment's due date.

Section 631: Neighborhood Reinvestment Corporation

Section 631 reauthorizes the Neighborhood Reinvestment Corporation through 1985 at a funding level of $15,512,000 for each year.

Section 632: Cooperative housing

Section 632 improves the ability of the Secretary to insure mortgages made on cooperative units. Loans can be insured if the Secretary has examined and does not disapprove any underlying financing of a cooperative more than a year old.

Section 633: National Institute of Building Sciences

Section 633 authorizes the National Institute of Building Sciences through 1985 and allows the Secretary to contract with the National Institute of Building Sciences to adopt and implement procedures for the review and acceptance of building systems, components, products and materials.

Section 634: Reinsurance demonstration program

Section 634 authorizes HUD to conduct a demonstration program in order to determine whether the processing of FHA mortgages on 1 to 4 family residences by private mortgage insurers can reduce government administrative costs, risk bearing, and the time required for processing. The demonstration would be limited to two regions of the country and could not result in a loss of HUD employment. Eligible private insurers would be required to share any losses on mortgages insured, and to carry out processing activities under terms set by the Secretary. HUD would be required to evaluate the demonstration, including its effect on the characteristics and acturial soundness of the mortgage portfolio wholly held in the General Insurance Fund, and to report its findings by March, 1985.

Section 635: Cancellation of debt owed the Treasury and liquidation of new communities program

Section 635 authorizes liquidation of the New Communities Program and contains provisions needed for its orderly termination. This program was first authorized in title IV of the Housing and Urban Development Act of 1968, and was reauthorized with certain

statutory amendments in title VII of the Housing and Urban Development Act of 1970. Between February 1970 and July 1979, HUD approved 16 new communities, of which 13 were financed in part with the proceeds of the sale of debentures guaranteed as to principal and interest by the Secretary.

Section 635(a) authorizes liquidation of the program and the transfer of the assets and liabilities of the New Communities Revolving Fund to HUD's Revolving Fund (Liquidating Programs) Account. The New Communities Revolving Fund was established to provide for the timely payments of liabilities incurred as a result of debenture guarantees. This revolving fund includes fees and income received in the program, and the statute provides that, in the event of a shortfall in the revolving fund, obligations may be issued to the Secretary of the Treasury in order to borrow sufficient monies to cover these costs. The costs of salaries and expenses for operating the New Communities Program, including administrative and nonadministrative expenses, have also been funded from the revolving fund. Interest accrues on the Treasury borrowing at rates periodically established by the Treasury. Because of interest compounding and because the return on disposition of assets acquired by foreclosure or otherwise has been substantially smaller than the costs of paying off the guaranteed debentures, the revolving fund has accumulated a debt to the Treasury estimated to be $399 million at the end of fiscal year 1983.

The transfer which section 635(a) authorizes would take place upon enactment of section 635(a) and approval of the transfer in an appropriation Act.

Section 635(b) makes clear that the authority governing HUD's Revolving Fund (Liquidating Programs) is sufficient to permit all necessary functions regarding the liquidation of the program to be performed. The second sentence of this subsection is based directly on the New Communities Revolving Fund's authority under section 717(c) of title VII, and is also intended to assure that there will be adequate authority for the liquidation. Residual program personnel would no longer be paid from the New Communities Revolving Fund but would be paid from the Department's Salaries and Expenses, HUD account.

Section 635(c) would confer Treasury borrowing authority on the Secretary, and contains conventional language concerning the Secretary of the Treasury's reciprocal duties and powers. The central purpose of the borrowing authority is to assure that payments on guaranteed debentures can be made, notwithstanding the cash position of the Revolving Fund (Liquidating Programs) at any given time. This authority would also permit the redemption of debentures, if the levels of the Treasury borrowing rate made such action advantageous to the Government. Were this borrowing authority omitted, HUD would be vulnerable to claims by debenture holders of impairment of their rights.

Section 635(d) provides that the Secretary's duty to repay principal and accrued interest on obligations issued to the Treasury for the New Communities Program is cancelled, upon transfer of the New Communities Fund's assets and liabilities to the Revolving Fund (Liquidating Programs). The cancellation of this debt to the Treasury, estimated to be $399 million at the end of fiscal year

1983, is proposed because it is unrecoverable, and the cost of servicing it is escalating. In fiscal year 1983 alone, the interest to Treasury is estimated to be $34.5 million. If the debt to Treasury remains outstanding, the interest in 1984 is estimated to be more than $37 million. To continue to service this debt would require further borrowings from the Treasury, creating more debt that will forever be beyond the capability of the program to repay. Cancellation of the debt will clear the books and allow the New Communities Program to be terminated. In 1984, it is expected that program costs (excluding any Treasury interest) can be funded from program funds. However, depending on the timing of receipts and the transfer to the Revolving Fund (Liquidating Programs), additional borrowings from the Treasury during the year for the New Communities Program may be necessary. In any event, under the authority of the Revolving Fund (Liquidating Programs), amounts in the fund which are excess to its needs are required to be paid to the Treasury at least annually.

Section 635(e) repeals titles IV and VII except for those sections technically necessary to remain in effect in order to enable the Department to meet its obligations under these titles. A savings clause is also included for those guarantees already made under titles IV and VII.

The proposed cancellation of obligations, including principal and accrued interest, is patterned on the analogous legislation for the Saint Lawrence Seaway Development Corporation, 33 U.S.C. § 985(b) (as to interest) and § 311, Department of Transportation and Related Agencies Appropriation Act, 1983, Pub. L. 97-369 (as to principal).

Section 636: National Housing Partnerships

Section 636 authorizes the Corporation to engage in the development of commercial facilities which are ancillary to housing projects to the level of 15 percent of the Corporation's activity. This expansion of the activities is consistent with changes made for thrift institutions under the Garn-St Germain Act passed last year.

TITLE VII.—MORTGAGE DEFAULT ASSISTANCE

Section 701. The short title of Title VII is the "Unemployment Homeowners' Relief Act of 1983".

Section 702 provides authority to the Secretary of Housing and Urban Development, acting through the Government National Mortgage Association (GNMA), to make commitments to guarantee and to guarantee junior mortgage loans to help involuntarily unemployed or underemployed homeowners avoid foreclosure. GNMA would guarantee timely payment of principal and interest to those who made or purchased such loans. Authority to make commitments to guarantee would expire on September 30, 1985.

Section 703 establishes eligibility requirements for the guarantees. Subsection (a) provides that, to be eligible, the mortgagor must have experienced a substantial reduction in family income as a result of involuntary unemployment or underemployment that was caused by the recession or other economic adversity beyond the mortgagor's control. The reduction in income would have to be

severe enough to prevent the mortgagor from making full mortgage payments. Before a mortgagor could be eligible for a guarantee, the mortgagor would have to exhaust other reasonable financial remedies, such as the liquidation of non-essential personal and real property and the application of family savings in excess of an amount that could be reasonably considered necessary for essential or emergency needs. Secondly, the mortgagor must be in default on a single family dwelling that is the mortgagor's principal residence. Third, the mortgagor must have had a good record or mortgage payments prior to the mortgagor's current unemployment.

Subsection (b) limits assistance under this title to those mortgages that: Are secured by a one-family dwelling, including a manufactured home or a unit in a condominium or a cooperative, that is the principal residence of the mortgagor; are not insured by the Federal Housing Administration or the Farmers Home Administration, which provide other forms of default assistance; and had an original principal balance that was not greater than the FHA limits for mortgages on similar property that are in effect when the mortgagor applies for assistance under this title.

Subsection (c) requires the Secretary, before issuing a guarantee under this title, to find that forbearance remedies had been exhausted and that foreclosure would result if the guarantee were not provided. The Committee intends that private mortgagees and morgagors be strongly encouraged to make a good faith effort to exhaust all reasonable and customary forbearance measures without the use of Federal guarantees so that assistance under this title will be available where it is most needed. Although the Committee chose not to include in statutory language specific forbearance standards as preconditions of assistance, procedures described in Part 4 of the Servicing Guide of FNMA and in Section 4 of the Servicers' Guide of FHLMC are useful guidelines.

In addition, the Secretary would have to find that there is a reasonable prospect that the mortgagor will be able to resume full mortgage payments.

Section 704 specifies requirements for the guaranteed loans. Subsection (a) limits the amount of a guaranteed loan to the total of the monthly payments that would become due during the subsequent 24-month period plus three months of arrears. Eligible mortgage payments include principal, interest, taxes, ground rent, hazard insurance, and mortgage insurance related to the first and any other senior mortgage on the mortgagor's principal residence. A guaranteed loan may also include an additional amount to cover interest payments on the loan that become due in the period before the mortgagor's repayment obligation begins. The Committee concluded that the size of the loan to be guaranteed should be determined on a case-by-case basis and not on an arbitrary, fixed percentage of the homeowner's equity. The decision on the size of the guaranteed loan that is prudent should take into account such factors as the future resources that the mortgagor can reasonably be expected to receive and the strength of the mortgagor's desire to retain the home.

The mortgagor would have to contribute a portion of the monthly mortgage payments. The mortgagor's share, as determined under regulations established by the Secretary, would be as large

as could reasonably be expected after taking account of the mortgagor's financial condition but at least 5 percent of the monthly payment due.

Subsection (b) requires lenders to enter into several agreements before receiving a guarantee under this title. First, in order to assure that a lender carefully assesses the risk of default under the guarantee, a lender would be required to assume 10 percent of any loss on a guarantee mortgage. Second, the lender would have to deposit the loan proceeds in an interest bearing escrow or trust account. This account would be used to pay monthly mortgage costs, interest on the guaranteed loan for up to 2 years, and any prepayment of the guaranteed loan. It is the intent of the Committee that the escrow or trust accounts earn interest at the market rate for accounts with comparable terms. Third, the lender would be required to pay to the mortgagor any amounts remaining in the escrow or trust account after all obligations related to the guaranteed loan are fullfilled.

Subsection (c) provides that once a loan is guaranteed, if the originator sells the loan in the secondary market, any purchaser of the loan would be guaranteed timely payment of interest during the period prior to commencement of the mortgagor's repayment obligation and of 100 percent of principal and interest in later years. This would enable lenders to ease cash flow problems, which may be especially important in areas with high delinquency rates. It is expected that the Federal National Mortgage Association and the Federal Home Loan Mortgage Association would facilitate access to the secondary market. In the event that a mortgagor defaults on a guaranteed loan that had been sold in the secondary market, the original lender's obligation to assume 10 percent of any loss would remain in effect, and GNMA would be responsible for collecting the lender's share of any loss.

Subsection (d) provides that a mortgagor would have to begin repaying the guaranteed loan within 24 months and that the loan would be fully amortized over the subsequent 12 years.

Subsection (e) prohibits a guarantee from being made on a loan that, in the determination of the Secretary's bears an excessive interest rate or fee. The Committee intends that the Secretary permit lenders to charge fees that are reasonable and customary as well as interest at the market rates for comparable loans after taking into account the reduced risk of loss that is provided by the Federal guarantee. The Secretary is expected to apply this test so that (1) financial benefits of the Federal assistance are, to the maximum extent practicable, passed through to unemployed homeowners and (2) appropriate incentives to participate in the program are given to lenders.

Subsection (f) provides the Secretary with administrative flexibility needed to implement the program promptly and efficiently.

Section 705 requires the Secretary to provide a guarantee under this title when a HUD-approved lender certifies that (1) the mortgage default assistance loan conforms to the requirements of the title and is secured by a lien on the mortgagor's principal residence, (2) the mortgagor meets the eligibility requirements of the program, and (3) the lender or its agent has provided appropriate credit counselling to the borrower. The lien that secures a guaran-

teed loan would be junior to those that exist when the guarantee is extended.

Section 706 requires the Secretary to issue final regulations to implement this title not later than 30 days after enactment. The section also gives the Secretary authority needed to protect the financial interest of the United States in the event of a default on a guaranteed loan. This includes authority to acquire, handle, improve or dispose of property.

Section 707 requires the Secretary and Federal supervisory agencies prior to January 1, 1984 to take prudent action, such as the easing of regulatory requirements, that would encourage financial institutions and mortgagees to forbear on delinquent home mortgages. Federal supervisory agencies include the Federal Reserve Board, the Federal Home Loan Bank Board, the National Credit Union Administration Board, the Comptroller of the Currency and the boards of directors of FDIC and FHLMC. The Committee intends that these measures be forceful so that unemployed homeowners will be helped to avoid foreclosure, wherever practicable, without use of guarantees under this title.

The section also requires the Secretary and the supervisory agencies to direct mortgagees, promptly after initiating foreclosure proceedings, to inform mortgagors of assistance that is available under this title.

Section 708 pledges the full faith and credit of the United States to the payment of guarantees under this title. The section also authorizes the Secretary to impose an up-front guarantee fee of not to exceed 1 percent.

Section 709 limits the aggregate amount of guarantees outstanding at any time to $750 million.

Regulatory Impact Statement

In compliance with paragraph 11 of Rule XXVI of the standing Rules of the Senate, the Committee makes the following statement regarding the regulatory impact of the bill.

TITLE I

Passage of the proposal to create a rental rehabilitation and housing development block grant will substantially reduce regulatory and administrative burdens on entitlement grants be replacing the heavy application and compliance burden of the previous Section 8 and other housing assistance programs. Not only does the new program require a simplified application procedure, but permits state and local governments considerable flexibility in designing and implementing locally conceived assistance programs.

TITLE II

Title II is a reasonably straight forward reauthorization of the community development block grant and urban development action grant programs. Changes is existing law are relatively minor and designed largely to improve program flexibility and clarify legislative intent. As such, they are expected to require little change in existing regulations.

TITLE III

Title III makes a significant contribution to deregulation by substantially reducing the number of regulations and the amount of supervision with which the large majority of public housing agencies must contend. Changes in the operating subsidy distribution mechanism are tantamount to a block grant approach requiring reapplication for agencies once every three years.

Title III also repeals all Section 8 new construction and substantial rehabilitation program authority except that which is required for the continuation of the Section 202 program for handicapped and elderly housing assistance.

TITLE IV

Title IV repeals the Federal Urban Riot Reinsurance and Crime Insurance programs and therefore would eliminate the body of regulation necessary to implement these programs. The Federal Flood insurance program is reauthorized and the major change in that program involves terminating the so-called emergency program and converting cities in an emergency program status to the regular program. Because of insufficient funding and tedious mapping process, the conversion of flood prone communities to the regular program was projected to take significantly larger than the 15 years originally envisioned. Since the Committee proposal envisions a major alteration to the program, new regulations implementing the change are required. We believe, however, that this requirement is offset by the overall simplification of the program, the savings in program costs, and the ultimate benefits to property owners policy holders.

TITLE V

Changes to existing rural housing programs operated by the Farmers Home Administration are designed to improve beneficiary targetting, reduce construction costs, and bring portions of the program which are currently off budget, on budget. There is one new program created which will require new regulations and guidelines. Other changes will involve amendments to existing regulations, but will result considerable, desireable programmatice reforms.

TITLE VII

Title VII creates a new program of guarantees for loans to prevent mortgage foreclosures. This program requires the HUD Secretary to issue final regulations within 30 days of enactment. These regulations will affect participating mortgage lenders and must specify the particular types of mortgagors and homeowners eligible for guaranteed loans the requirements of the loan contract, and the terms of GNMA's payment of claims on guaranteed loans that go into default. In addition, the Title requires the Federal Reserve Board, the Federal Savings and Loan Insurance Corporation, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the National Credit Union Administration to establish procedures which encourage forebearance by all fi-

nancial institutions and which require all financial institutions to notify any homeowner entering foreclosure procedures about the assistance available under the Title.

The remainder of the bill will have no substantial regulatory impact.

Changes in Existing Law

In the opinion of the Committee, it is necessary to dispense with the requirements of subsection 4 rule XXIX of the Standing Rules of the Senate in order to expedite the business of the Senate.

U.S. Congress,
Congressional Budget Office,
Washington, D.C., May 16, 1983.

Hon. Jake Garn,
Chairman, Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Dirksen Senate Office Building, Washington, D.C.

Dear Mr. Chairman: Pursuant to Section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has prepared the attached cost estimate for the Housing and Community Development Act of 1983.

Should the Committee so desire, we would be pleased to provide further details on this estimate.

Sincerely,

James Blum
(For Alice M. Rivlin, Director).

Congressional Budget Office—Cost Estimate

May 16, 1983.

1. Bill No.: Not yet assigned.
2. Bill title: Housing and Community Development Act of 1983.
3. Bill status: As order reported by the Senate Committee on Banking, Housing and Urban Affairs, April 13, 1983.
4. Bill purpose: The bill would make major changes to low-income housing programs administratered by the Department of Housing and Urban Development (HUD). Except for housing for the elderly and handicapped, all section 8 new construction authority would be repealed and a new section 8 housing voucher program would be created. The bill would also alter the means by which operating and maintenance subsidies are provided to public housing authorities. A new loan guaratee program would be created under which HUD would guarantee second mortgage loans made by private lenders to defaulted mortgage borrowers. Additional funding would be authorized for various other ongoing housing-related programs.

In addition, the bill creates a new rental rehabilitation grant program that would expand the role of the federal government in that area while repealing the existing 312 rehabilitation loan program. Other communmity development assistance programs would be amended by provisions of this bill, and specific authorizations are provided for fiscal years 1984 and beyond for several HUD programs.

5. Estimated cost to the Federal Government: The estimated budget impact of the bill is summarized below:

[By fiscal years, in millions of dollars]

	1984	1985	1986	1987	1988
Budget function 370:					
Estimated authorization level	4,146	76	99	100	100
Estimated outlays	2,169	808	612	470	92
Budget function 450:					
Authorization level	4,344	4,024	3,966	106	.....
Estimated outlays	13	1,874	4,330	3,671	2,208
Budget function 600:					
Estimated authorization level	9,836	10	10	.....	.....
Estimated outlays	876	963	425	461	484
Total:					
Authorization level	18,325	4,109	4,075	206	100
Estimated outlays	3,057	3,645	5,367	4,602	2,784

For fiscal year 1984, the bill would authorize the release in appropriations acts of over $3.9 billion in direct loan authority. The estimated budget impact of the use of this authority is reflected in the table above. The bill would also allow the HUD Secretary to guarantee loans made by private lenders and investors totaling $115 billion. Of this amount, $68 billion would be for mortgage-backed securities guaranteed by the Government National Mortgage Association (GNMA). Since these securities are, themselves, backed by federally insured mortgages, the GNMA involvement would result in no additional guarantee liability. The use of the remaining $47 billion in loan guarantee authority would represent additional contingent liabilities to the federal government that could result in future claims payments. This potential budget impact is not included in this cost estimate.

Basis of Estimate:

TITLE I.—RENTAL REHABILITATION

Rental rehabilitation and development grants.—The bill would authorize up to $850 million in fiscal year 1984 to help support the rehabilitation of privately owned real property to be used for primarily residential rental purposes. Not more than $550 million of the amount authorized would be used for annual contributions contracts (under the provisions of section 8(b)(3)(B) of the United States Housing Act of 1937, as amended) to minimize the displacement of specific groups from units undergoing rehabilitation. Of the remaining $300 million authorized, the Congressional Budget Office (CBO) has assumed that $269 million would be available for moderate rehabilitation grants, $30 million for substantial rehabilitation or new construction and $1 million for technical assistance.

The estimated budget impact of Title I follows:

[By fiscal years, in millions of dollars]

	1984	1985	1986	1987	1988
Rental rehabilitation grants:					
Estimated authorization level	300				
Estimated outlays [1]		171	214	84	66
Rental assistance payments:					
Authorization level	550				
Estimated outlays		49	105	114	118
Total:					
Authorization level	850				
Estimated outlays		220	319	198	184

[1] Includes outlays from unobligated balances transferred to this program from the 312 rehabilitation loan fund.

TITLE II.—COMMUNITY AND NEIGHBORHOOD DEVELOPMENT

Community development block grants.—The bill authorizes the annual appropriation of $3,966 million for fiscal years 1984, 1985, and 1986 for community development grants and allocates $3,526 million of these funds for Community Development Block Grants (CDBG) and $440 million for Urban Development Action Grants (UDAG) annually. The bill specifically sets aside $50 million each year from the CDBG discretionary fund (funded at not more than $100.5 million each year) for grants to Indian tribes. For the purposes of this cost estimate, outlays for the UDAG program have been estimated based on recent spending experience for that program. Section 206 of Title II expands the list of activities that are eligible for lump sum drawdowns of CDBG grants to include activities eligible under section 105(a)(14) of the Housing and Community Development Act of 1974. This provision substantially broadens the list of activities for which the grantee can receive grant money prior to paying for the incurred expense. Grantees requesting this disbursal must use any income earned from such early receipt for activities eligible for the original grant.

Since the extent to which grantees will utilize this provision is not known the impact on CDBG spending is difficult to estimate. Prudent grantees would be expected to take advantage of the investment income opportunities offered by such a provision. For the purpose of this estimate, the Congressional Budget Office has assumed that 5 percent of all funds authorized in fiscal year 1984 would fall under this provision and that that percentage would grow to 15 percent by fiscal year 1986. This provision does not alter the total spending for CDBG activities, but it should accelerate the transfer of funds from HUD to the grantee.

Title II also repeals all authorizations resulting from Section 312 of the Housing Act of 1964 (rehabilitation loan fund) and transfers all unobligated funds to the rehabilitation grant program authorized by title I of this bill. This provision would transfer to the new rehabilitation grant program the repayments of principal and interest on loans previously disbursed under authority of the 312 loan program. The CBO estimates that amount to be in excess of $70 million in fiscal year 1984, declining annually thereafter.

Title II also authorizes the appropriation of $17 million in fiscal year 1984 and such sums as may be necessary in fiscal year 1985 for the urban homesteading program. CBO has estimated an au-

thorization level for fiscal year 1985 by adjusting the 1984 level for inflation.

The estimated budget impact of Title II follows:

[By fiscal years, in millions of dollars]

	1984	1985	1986	1987	1988
Community development block grants:					
Authorized level	3,526	3,526	3,526		
Estimated outlays	238	1,689	3,540	3,057	1,812
Urban development action grants:					
Authorized level	440	440	440		
Estimated outlays	22	110	220	308	330
Urban homesteading:					
Authorized level	17	18			
Estimated outlays	17	18			
Total:					
Authorized level	3,983	3,984	3,966		
Estimated outlays	277	1,817	3,760	3,365	2,142

TITLE III.—HOUSING ASSISTANCE PROGRAMS

Emergency housing grants.—Title III of the bill would authorize the HUD Secretary, subject to appropriation acts, to make up to $100 million in grants to local governments, Indian tribes and nonprofit organizations to provide emergency shelter and services to the homeless. No additional appropriations are authorized for this purpose. If the program were to be implemented, funding would come from spending authority otherwise available to HUD.

Section 8 and public housing commitments.—Title III would alter substantially HUD's low-income housing subsidy programs. Except for housing for the elderly and handicapped in projects financed with section 202 loans, authority to enter into assistance contracts with developers of newly constructed or substantially rehabilitated housing would be repealed. In addition, a new form of assistance contract would be authorized using five-year certificates (vouchers) issued to public housing agencies on behalf of qualifying households. Under the voucher proposal, the annual contract value would be set equal to 110 percent of the estimated yearly subsidy requirement, thus providing for housing cost increases. This cost estimate assumes a first-year payment of $2,300 per household, resulting in an aggregate federal commitment of $12,500 for each five-year contract.

Title III of the bill would amend section 5(c) of the United States Housing Act of 1937 to allow HUD to enter into 1984 assistance contracts totaling $7,651 million over the contract terms. Although new appropriations would be authorized, the bill instructs HUD to use first any unobligated funds available from prior appropriations. Under the various funding set-asides included in the bill, the $7.65 billion could support section 8 assistance contracts for about 103,000 units, plus $2 billion in additional commitments for the public housing modernization program. About 14,000 of the units would be newly constructed for the elderly and handicapped and about 18,900 would involve the use of the new five-year vouchers.

With the exception of the units for the elderly and handicapped, most of the 1984 commitments would be expected to go in support of housing already receiving some form of federal assistance.

In addition to the $7.65 billion provided in title III of this bill, the appropriation of $550 million in voucher assistance would be authorized in title II. This would support about 40,000 units, all of which would be associated with title II's rental rehabilitation block grant program.

The $7.65 billion would also provide funding for fiscal year 1984 contract amendments in accordance with sections 313 and 314 of the bill. These sections would require HUD to offer annually to amend contracts that provide rental assistance payments under section 236 of the National Housing Act or section 101 of the Housing and Urban Development Act of 1965. This requirement would only apply to housing that was financed with mortgages that are not insured under title II of the National Housing Act—about 33,700 units. The 1984 authorization level of $187 million included in this cost estimate is the amount estimated to be sufficient to accommodate only the 1984 rent increases and to maintain those same rent levels for the remaining life of the contracts (asumed to be 30 years), should all eligible project owners accept the amendment offer. Assuming a 5 percent annual growth in both project operating expenses and tenant incomes, the aggregate amount necessary to allow for contract amendments on all 33,700 units for each of the next 30 years is estimated to be $1.4 billion.

Public housing operating assistance.—If enacted, the bill would establish within HUD a Public Housing Accreditation Commission. This commission would set efficiency standards for the management and operation of low-income housing projects and the administration of section 8 housing assistance. The commission would also establish procedures for the evaluation of public housing agencies to determine whether an agency meets and continues to meet these efficiency standards. An agency that has been accredited by the commission would be eligible for an operating assistance contract with a term of up to three years. Beginning in fiscal 1985 an accredited agency would also receive payments for a repair and maintenance fund equal to 15 percent of its allowed nonutility operating expenses. Initially the expenses of the commission would be paid for from funds otherwise available to HUD. Eventually, however, the commission would charge fees for its services. Title III would authorize the appropriation of $1.5 billion for 1984 operating assistance obligations. It is assumed that outlays from this authorization would be consistent with past experience.

Troubled projects operating assistance.—The bill would authorize the continued use of excess rents collected pursuant to section 236(g) of the National Housing Act for assistance to certain troubled multifamily housing projects. No additional authority is provided.

Housing for the elderly and handicapped.—The bill would authorize, for 1984, $667.8 million for HUD's section 202 elderly and handicapped housing loan program. The number of units receiving assistance from these funds could not exceed 14,000 and the use of the authority would be subject to approval in appropriations acts.

The outlays shown in this estimate are loan disbursements less interest and principal payments.

Congregate housing services.—The bill contains an authorization of $10 million for each of the years 1984, 1985 and 1986 to provide certain additional services to elderly or handicapped residents of housing administered by public housing agencies or nonprofit corporations. This estimate assumes that HUD would enter into three-year contracts with the administering agencies.

Older Americans' housing demonstration.—If enacted, title III would require the HUD Secretary to carry out during fiscal year 1984 a program to develop, demonstrate and evaluate methods that would assist older homeowners who are experiencing certain housing-related problems. These homeowners would include those who wish to sell but are unable to acquire or rent a smaller unit without assistance, or those who wish to remain in their houses but are unable to pay the associated maintenance and operating costs. The costs of the demonstrations and evaluations and studies required by this provision would be limited to $10 million. Although funding would be subject to approval in appropriations acts, additional appropriations for this purpose are not authorized. Expenses would be met from funds otherwise available to the Department.

The estimated budget impact of Title III follows:

[By fiscal years, in millions of dollars]

	1984	1985	1986	1987	1988
Section 8 and public housing commitments:					
Authorization level	7,464	.....	.....	.....	.....
Estimated outlays	21	164	269	330	353
Public housing operating subsidies:					
Authorization level	1,500	.....	.....	.....	.....
Estimated outlays	825	675	.....	.....	.....
Rental assistance contract amendments:					
Authorization level	187	.....	.....	.....	.....
Estimated outlays	6	6	6	6	6
Housing for the elderly and handicapped:					
Authorization level	669	.....	.....	.....	.....
Estimated outlays	.....	.....	305	276	−58
Congregate housing:					
Authorization level	10	10	10	.....	.....
Estimated outlays	3	7	10	7	3
Total:					
Authorization level	9,830	10	10	.....	.....
Estimated outlays	855	852	590	619	304

TITLE IV.—INSURANCE PROGRAMS

Crime and riot insurance.—Title IV extends the authority of the Director of the Federal Emergency Management Agency (FEMA) to carry out activities associated with the national insurance development program to September 30, 1983 from May 20, 1983, and provides for the orderly termination of all legal responsibilities resulting from such insurance activities. This title also extends the authority of the Director to carry out the activities authorized by the Flood Disaster Protection Act of 1973, as amended, from May 20, 1983 to September 30, 1985. This authority will allow the Director

to continue to issue flood insurance policies during that period. For the purposes of this estimate, CBO has projected the budget impact of these two provisions based on the recent experience of the two programs and information provided by FEMA concerning the orderly phase-out of the crime and riot insurance programs.

The bill also authorizes the appropriation of $1 million to allow FEMA to make a grant to study the feasibility of expanding the Flood Insurance program to cover damage or loss arising from sinkholes.

The estimated budget impact of Title IV follows:

[By fiscal years, in millions of dollars]

	1984	1985	1986	1987	1988
Crime and riot insurance:					
Estimated authorization level	26	6			
Estimated outlays	22	10			
Flood insurance:					
Estimated authorization level	1			[1] 106	
Estimated outlays	−306	−155	342	225	

[1] Estimated funding required in fiscal year 1987 reflects the liquidation of obligations incurred from policies written and premiums received prior to October 1, 1985.

TITLE V.—RURAL HOUSING

Current law contains a wide variety of programs through which the Farmers Home Administration (FmHA) provides low- and moderate-income housing assistance in rural areas. These range from very specialized grant programs to direct mortgage loans from the rural housing insurance fund (RHIF) generally involving deep interest rate subsidies. Total 1983 activity for these programs is expected to exceed $3.4 billion, most of which will be in the form of subsidized-interest-rate mortgages. Subject to appropriations, the bill would authorize fiscal year 1984 assistance totaling $3,618 million, including $3,262 million for direct or guaranteed loans, $126 million for grants and $230 million for rural rental assistance payments.

Rural housing loans.—Of the $3,262 million authorized for loans, the bill would allow up to $2,300 million to be used for single-family homeownership assistance and up to $940 million for loans to finance the construction or rehabilitation of low-income rental units. The bill further specifies that after its enactment not less than 40 percent of the houses financed with single-family loan assistance must be occupied by very low-income households. Similarly, to the extent rental assistance is available, virtually all rental units financed by the FmHA would be restricted to very low-income tenants. Income levels defined as low-income and very low-income would be consistent with the Secretary of Housing and Urban Development's determinations under the United States Housing Act of 1937. For this estimate it was assumed that the loan activity authorized would take the form of direct federal loans. Single-family mortgages were assumed to average $41,000, with interest rates of 1 percent for very low-income borrowers and 3 percent for low-income households.

Treatment of asset sales.—The budget impact of rural housing loans shown in this cost estimate also includes the projected effect of the change in the treatment of asset sales proposed in the bill. Currently, FmHA offsets large portions of its outlays and budget authority requirements through the sale to the Federal Financing Bank (FFB) of certificates of beneficial ownership backed by FmHA loans. Since FFB outlays are off-budget, this procedure obscures the actual impact on the U.S. Treasury of rural housing programs. The bill would alter this situation for the RHIF by defining these transactions as borrowing rather than as asset sales. Although this change would not change program costs, its effects on the unified budget would be substantial. In fiscal year 1982, the FmHA sold almost $5.2 billion of housing related notes to the FFB—about $3.1 billion associated with mortgage loans newly disbursed in that year. The current Congressional Budget Office baseline estimates assume loan disbursements of $3.4 billion in 1984 and over $15 billion for the years 1985 through 1988. In the baseline, this activity is entirely offset by note sales to the FFB. Under the bill's proposed accounting change, these transactions would be treated as agency borrowing and would represent dollar-for-dollar increases to budget authority and outlays.

Rural housing grants.—The bill would create a new grant program through which funds could be provided to state and local governments, Indian tribes and other eligible recipients in order to rehabilitate housing owned or occupied by low- and very low-income households. The bill would allow up to $100 million for this purpose in the years 1984 through 1986. It is assumed that the full $100 million would be obligated in 1984 with grant disbursements occurring over three years. In addition to the new program authorization, the bill would make available for appropriation in 1984 $26 million for existing grant programs. This amount is expected to be disbursed at rates consistent with program experience.

The estimated budget impact of Title V follows:

[By fiscal years, in millions of dollars]

	1984	1985	1986	1987	1988
Rural housing loans:					
Authorization level	3,253	75	99	100	100
Estimated outlays	2,133	764	261	146	100
Rural rental assistance payments:					
Authorization level	230				
Estimated outlays	42	44	46	48	50
Rural housing grants:					
Authorization level	126				
Estimated outlays	22	62	35	3	4
Total:					
Estimated authorization level	3,609	75	99	100	100
Estimated outlays	2,197	870	342	197	154

In the absence of the change in the treatment of asset sales to the FFB, the budget impact of Title V would be as follows:

[By fiscal years, in millions of dollars]

	1984	1985	1986	1987	1988
Estimated authorization level	1,384			52	100
Estimated outlays	−28	72	151	149	154

TITLE VI.—PROGRAM AMENDMENTS AND EXTENSIONS

Mortgage insurance and guarantee authorities.—The bill would extend and make certain amendments to HUD's authority to insure mortgages under various sections of the National Housing Act. Provisions are also included that would allow the HUD Secretary to insure adjustable rate mortgages, shared appreciation mortgages and, on a demonstration basis, equity conversion mortgages.

These programs result in contingent liabilities to the Federal Government and could have significant budget impact in any given year even though they are intended to be actuarially sound in the long run. Total mortgage insurance commitments would be limited to $46 billion in 1984. In addition, the Government National Mortgage Association's (GNMA) authority to issue guarantee commitments for mortgage backed securities would be limited to $68 billion. No budget impact for these programs is included in this estimate.

Title VI would also authorize the appropriation of such sums as may be necessary to cover losses in the General Insurance fund of the Federal Housing Administration (FHA). This money would be used to pay insurance claims and other liabilities of the fund. Without such an appropriation, these claims and liabilities would be paid with funds borrowed from the U.S. Treasury. Thus, this provision would have no additional budget impact.

HUD research.—The bill authorizes the appropriation of $18 million annually for fiscal year 1984 and 1985 for authorized research activities of HUD.

Neighborhood Reinvestment Corporation.—The bill authorizes the appropriation of $15,512,000 annually for fiscal years 1984 and 1985 for transfer to the Neighborhood Reinvestment Corporation.

Liquidation of the new communities program.—Provisions of title VI allow for the orderly termination of all outstanding government responsibilities resulting from the new communities fund authorized by the Housing and Urban Development Act of 1968. The bill would transfer all outstanding assets and liabilities of the fund to HUD's liquidation revolving fund and would provide for the legal cancellation of any resulting debt owed to the U.S. Treasury as a result of operations of the fund. The Administration has estimated that this provision would result in the cancellation of approximately $399 million in intragovernmental debt. Such a debt cancellation has no net budget impact since the actual cost to the government occurred when the original guarantee was honored.

The estimating budget impact of Title VI follows:

[By fiscal years, in millions of dollars]

	1984	1985	1986	1987	1988
HUD research:					
Authorization level	18.0	18.0			
Estimated outlays	4.0	15.0	14.0	3.0	
Neighborhood Reinvestment Corporation:					
Authorization level	15.5	15.5			
Estimated outlays	15.5	15.5			

TITLE VII—HOMEOWNERS' RELIEF

If enacted, title VII of this bill would create a new federal loan guarantee program. With the authority provided, the HUD Secretary would guarantee the timely repayment of second loans made by private lenders to homeowners experiencing temporary difficulty in meeting their existing mortgage obligations. The guarantee assistance would be available only to those in financial difficulty because of involuntary unemployment or underemployment whose mortgages are not insured under the National Housing Act or assisted under title V of the Housing Act of 1949. Also, a guarantee would be provided only if the lender has indicated his intention to foreclose, all available forbearance remedies have been applied and the HUD Secretary determines that there is a reasonable possibility the assisted homeowner would be able to resume full payment. The amount of guarantees outstanding at any one time would be limited to $750 million and the guarantee authority would expire at the end of fiscal year 1985.

The principal amount of the guaranteed second loan would include not more than 95 percent of the payments due under the original mortgage for principal, interest, taxes and insurance for up to 24 months after the date of the loan plus a three-month arrearage payment. In addition, an amount representing accrued interest from the date of the loan until the repayment period begins would be included in the loan. The Secretary would be authorized to collect a guarantee fee of 1 percent of the loan amount and it is assumed that this fee would also be capitalized. Within 24 months from the second loan origination date, the homeowner would resume full responsibility for the original loan expenses and begin repaying the second loan amortized over a period of not more than 12 years. In case of default, the federal government would cover 90 percent of the second loan's unpaid balance. If the loan were sold in the secondary market, the government's liability would be 100 percent.

The amount of the federal guarantee that would be required in each situation depends upon the household's total housing expenses and the length of time assistance would be required. These factors, in turn, determine the number of households that could be aided by the funds authorized in the bill. Based on conventional loan activity by savings and loan associations over the past 10 years, it was assumed for this cost estimate that the monthly mortgage payment of an assisted household would average about $460 including taxes and insurance. Experience under the Federal Housing Administration's section 203(b) insurance program indicates that

maintenance and utility costs could be expected to increase total monthly housing expenses to about $600. Further, it was assumed for this estimate that federal payments would be required for 24 months. These assumptions imply that $750 million in guarantee authority would aid about 65,000 homeowners if the assistance were set at the maximum 95 percent of mortgage expenses. If the household contribution were set at 15 percent rather than 5 percent, households served could increase to about 72,000. It should be noted, however, that the estimated number of households served is very sensitive to the assumptions used. As an example, an increase of $100 in the assumed average monthly mortgage payment would decrease the number of households served by 15,000. Similar increases could be expected if the monthly mortgage payment characteristics of households served are coorespondingly lower.

This cost estimate includes only the budget effects of the guarantee fees collected by HUD—$7.5 million in 1984. The eventual cost of the program will, however, depend on the loan default rates of assisted homeowners and the resulting claims payments required of the federal government. Because of uncertainties as to the financial characteristics of borrowers and the stringency of underwriting standards that would be applied, it is not possible to develop firm estimates of claim costs. Given the 24 months allowed from the guarantee dates until the repayment obligations begin, it is very unlikely that claims will occur before fiscal year 1986. Beyond this point, it appears that the default risk is significant. Under the assumptions listed above, a household with an annual income of $22,000 would use about 25 percent of income for its mortgage payment. Total housing expenses, including maintenance and utility costs, would require about 32 percent of income. If, after a period of reduced income requiring 24 months of assistance, the homeowner were once again to achieve a level of $22,000, combined housing expenses would require over 43 percent. (This assumes a second loan of $13,800 at an interest of 12 percent amortized over 12 years.) Depending on other fixed expenses, this demand on income may trigger a default. If reemployment occurs at higher income levels, the situation would improve. Were underemployment to remain a problem into the repayment period and the borrower's income were $15,400 (70 percent of the former level of $22,000), housing-related expenses would consume 62 percent of income. For such borrowers, a default would be more likely.

6. Estimated cost to State and local governments:

Department of Housing and Urban Development grants to states and local governments under this bill would total $4,266 million in fiscal year 1984, $630 million less than the $4.9 billion appropriated in fiscal year 1983 (which included a supplemental $1.0 billion for CDBG). While these grants do not require specific matching contributions by grant recipients, the local costs of administering such funds are borne by recipient governments. The level of funds authorized by this bill is not expected to increase these costs.

7. Estimate comparison: None.

8. Previous CBO estimate: None.

9. Estimate prepared by: Brent Shipp and Lin Lloyd.

10. Estimate approved by: James L. Blum, Assistant Director for Budget Analysis.

ADDITIONAL VIEWS OF SENATORS GARN, TOWER, TRIBLE, HECHT, MATTINGLY, AND GORTON ON TITLE VII OF THE COMMITTEE REPORTED BILL

We want to make it clear at the outset that we have tremendous compassion for the families which, through economic circumstances involuntarily imposed on them, face the prospect of losing their home through an inability to make timely mortgage payments. For most American families, a home is not only their principal asset but has intrinsic psychological value far beyond the dollar worth of the property.

We must oppose, however, the Federal assistance program proposed in Title VII of this bill. We think this financial assistance, in any form, to families facing foreclosure on their homes, while well intentioned, is the wrong kind of help.

We believe that a combination of lender forebearance on mortgages, adequate counseling and in the longer term, a healthy, growing economy, is the preferable solution to this problem.

Mortgage lenders, be they commercial bankers or savings and loan executives, have every incentive to forbear to the maximum extent possible on mortgages in threat of default. It is not in a lender's best interest to assume possession of a residential property, attempt to protect and maintain it and, perhaps, be forced to sell it at a loss. As the providers of mortgage money to the community, lenders are reluctant to foreclose on their mortgagees who otherwise have honored financial commitments and have been good customers of the institutions.

The assistance proposed by Title VII of the Committee's bill poses what appears to us to be significant problems. First and foremost, the proposal would impose on families which are already hard pressed an additional and significant debt burden. While for some families this new loan might be manageable, for others, the burden may be too great either because employment is unavailable or they are not, for other reasons, able to regain their full financial viability. In this case both the family and the government loses. The family loses its home, and the government loses on the balance of the second mortgage that it has guaranteed.

Moreover, we think the proposed assistance is not sufficiently targeted to deal only with the conditions in areas of the country where the high unemployment problem is concentrated.

In addition, as the economy continues on its present course, mortgage delinquencies are already declining and will continue to decline. Therefore, the commitment period envisioned by the bill, i.e. through 1985, is too long.

Finally, both in the long run and the immediate future, the most permanent solution to this problem is the economic recovery which has begun and which must be fostered by our every action. We now see encouraging evidence that people laid off in the steel, construc-

tion and automobile industries are beginning to go back to work in ever increasing numbers. In particular, we do not believe this to be the time to add another quarter of a billion dollars to the federal debt market. The government directly or through its myriad of agencies currently consumes as much as 70 percent of the available investment capital forcing the price of private capital ever higher. That is exactly opposite to a needed stimulus for economic recovery.

For these reasons, we oppose this provision. We will oppose it when the Senate takes it up for consideration and will offer an amendment on the Floor similar to one offered by Congressman Wylie in the House, which provides a more active regulatory approach to encouraging lender forbearance.

JAKE GARN.
JOHN TOWER.
PAUL S. TRIBLE, JR.
CHIC HECHT.
MACK MATTINGLY.
SLADE GORTON.

ADDITIONAL VIEWS OF SENATOR WILLIAM L. ARMSTRONG

I. OVERVIEW

S. 1338 is a budget busting housing subsidy bill which should not even be considered, let alone passed, by the Senate.

The U.S. economy is finally staggering out of a recession caused or, at least, seriously aggravated by large federal budget deficits. But the whole world is nervously eyeing the $1.2 trillion in deficits projected for the next five years with a general fear that such deficits will send our economy into a tailspin and pull other nations down with us.

Under the circumstances, it seems extraordinarily unwise for the Senate Banking Committee to recommend a bill which creates seven new HUD programs, adds billions to projected deficits and, at the same time, fails to protect those who have the most to lose from the failure of subsidized housing programs—the poor and ill-housed.

The bill recommended by the committee calls for:

Housing vouchers, similar in concept to food stamps, and with the same potential for explosive cost growth. Although funded for only 60,000 persons in this bill, approximately 12 million people meet the legislative eligibility standards.

Mortgage foreclosure relief, a $750 million loan guarantee program, on which no hearings have been held before committee mark-up.

Rehabilitation and Development grants, a program with funding double that proposed by the Administration which would permit anyone to receive federal money to fix up their house, build new housing, etc. . . . regardless of income or financial need!

Demonstration projects which overlap and may pre-empt private sector efforts.

A new public housing policy making committee, not requested by the Administration, nor is the Administration represented on the committee.

PHA capital replacement fund, also not requested, for good reason.

No Davis-Bacon reform which could save $500 million.

$40 billion in BA above the President's request (1984–88), according to the Office of Management and Budget.[1]

$11.9 billion in Outlays above the President's request (1984–88), again, according to the Office of Management and Budget.

$18 billion in higher guarantee authority for the Federal Housing Authority and Government National Mortgage Administration than was requested by the Administration.

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[1] OMB projection assumes 1984 spending levels to occur in subsequent years.

$2 billion more in lending authority for rural housing programs than was requested by the Administration.

Increasing subsidized rents to levels 13 percent higher than requested by the Administration.

As I review these staggering proposals, I cannot help wondering whether the Administration and Congress realize the magnitude of resources already committed to federal housing. Of the $363 billion obligated to federal housing programs, some $263 billion remains to be spent. We now provide housing assistance to 5.6 million units and 13 million Americans. If Congress did not commit a single additional dollar, another 300,000 units are already authorized to be provided by 1988. I believe Congress would be foolish to authorize additional federal housing assistance at this time. Yet the Administration over the next five years projects new housing authorizations of $47.9 billion over amounts already committed providing an additional 446,000 subsidized units.[2] The Senate Banking committee then proposes $40 billion in spending higher than what the Administration requested. How can such spending levels, new housing programs and changes in current programs proposed in the Senate authorization bill can be justified in view of existing commitments and the prospect of gigantic deficits?

II. OBJECTIONS TO SENATE BILL

A. New housing programs

The history of federal housing policy amply shows that most housing programs are ill-conceived. Time after time, a program is begun, then expanded and eventually becomes so large and the problems so manifest that Congress finally comes to its senses and scuttles the program . . . only to begin new programs. Yet, of course, the bill for the previously discredited programs is left to future generations to pay.

From this perspective, the additional spending and new programs contained in this bill are apt successors to the long line of flawed federal housing programs. But at a time when the government cannot afford the housing programs already in place, both the Administration and Congress are proposing new programs that, in many instances, are illogical and counter-productive. These new programs contained in this bill include:

(1) Rental Rehabilitation and Development Grants; (2) Housing Vouchers; (3) Mortgage Foreclosure Relief for the Unemployed and the Underemployed; and (4) Public Housing Accreditation Commission.

Let's consider the details of each of these new initiatives.

1. Rental rehabilitation and development grants

(a) Program Expansion.—This program was first proposed by the Administration in January. In less than two months, the Senate Banking committee has:

Doubled funding for the program.

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[2] Sources: Office of Management and Budget, Housing Branch; Office of the Budget, Dept. of Housing and Urban Development; Office of the Budget Farmers Home Administration.

Dramatically changed the nature and scope of the program. No longer will the program only provide grants to rehabilitate existing housing; but will also provide grants to help develop new units of housing! Moreover, grants need only finance "primarily" residential real estate projects rather than "exclusively" residential property as was first proposed.

Expanded the program so that grants can be provided for acquisition of property, not just rehabilitation.

Authorized assisted units to receive federal insurance guarantees.

Created a "Secretary's Discretionary Fund" for $30 million that was not even requested by the HUD Secretary.

Authorized $1 million in technical assistance not requested by the Administration.

Permitted unspent funds left after terminating the Section 312 rehabilitation loan program—another failed housing development program that, ironically, the Banking committee wants to terminate with this bill—to be transferred to the new "improved" rehabilitation program.

All at a time when the federal government is projecting $200 billion in dificits.

Perhaps this new program could be justified if it were tightly written, urgently needed, millions of Americans were demanding its enactment and offered ironclad guarantees that the money would be spent wisely and efficiently.

Of course this is just wishful thinking. Let me quote from an April 1983 analysis by the General Accounting Office which states that this could lead to subsidies which are:

(1) ". . . targeted at housing units without adequate consideration for benefiting needy renter households,

(2) "have costs higher than necessary to improve the housing conditions of lower income households,

(3) "have the potential for significant displacement of lower income household,

(4) "have little evaluation information available." [3]

While it is true that some GAO concerns were addressed by provisions added to the committee bill, Congress would be foolhardy to commit to this program until each of these concerns is addressed, and GAO, HUD and OMB verify these potential problems will not occur.

(b) Lack of financial accountability.—In addition this rental rehabilitation proposal lacks financial accountability as well. For example, records on incomes of households in determining eligibility or their citizenship occupying rehabilitated housing are not explicitly required by the bill. In a study conducted by GAO of 64 communities which had implemented some previous rental rehabilitation loan programs, only 23 of the communities were able to verify incomes of households benefiting from the rehab program. In addition, these cities used various forms of calculating income limits—if they did keep records—some based on Section 8 or some independent method by which income and demographic data was not efficiently kept.

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[3] GAO report included in appendix.

Rental rehabilitation should be specifically targeted to neighborhoods of low income housing projects. Many of the cities surveyed by GAO were found to have "pockets" of middle income households which participated in the rehab program. In essence, much of the money was going to other than needy households.

(c) Secretary's discretionary fund.—This bill creates a Secretary's Discretionary Fund of $30 million, and directs only that funds are to be spent for substantial rehabilitation or construction projects.

This slush fund was not requested by HUD. In my view, discretionary funds of this size are inappropriate in government no matter who is in control. Again, history proves my point.

The Section 8 new construction program became notorious contracts which were given to developers who, coincidentally, contributed significant campaign sums to reigning politicians. During the previous Administration, newspaper headlines screamed "Housing and Politics: The Way it Works," "A Donation to Carter Unlocks HUD Dollars," "Friends of the Governor Thrive on Housing Funds," "Politicians Steer Section 8 Profits to Allies." It is interesting to note that on the last day of the Carter Administration, HUD released more than $2 billion in Section 8 contracts out of the Secretary's Discretionary Fund.

In short, providing $30 million in discretionary funds without adequate guidelines can only be labeled as poor public policy.

(d) Targeting.—Federal assistance programs are generally not targeted to help the truly needy, since less than 8.3 percent of all federal assistance is means-tested.

This proposed rental rehabilitation program is no exception and is far from being targeted to those most in need. No income limit is imposed on those who qualify to receive the grants to rehabilitate housing, and for as much as 50 percent of the funds provided there is no income limit on those living in the units once rehabilitated.

This failure to target the program works directly against our successful efforts of the past three years to insure that future housing subsidies be made available only to the very low income. In fact, one result of this bill is to make some eligibility requirements more generous than in the entire history of the Department of Housing and Urban Development.

The new eligibility standards are at best very complicated to explain (and incidentally, are radically different from all other HUD eligibility standards that they must now enforce). This new program has not one, but three sets of eligibility standards. First, all grants must be spent in neighborhoods whose median incomes are less than 80 percent for the area. Literally thousands of neighborhoods across this country would meet this standard. How can the government insure that the most needy neighborhoods will receive priority funding?

The next standard of eligibility is even more faulty. This bill specifies that 70 percent (and in some cases 50 percent) of benefits must help those earning less than 80 percent of median income . . . or about 30 million families. But what happens to the rest of the money?

Thirty percent of this assistance could potentially go to anyone regardless of income.

For example, a wealthy individual who wants to renovate a townhouse in a blighted Washington, D.C. area could receive a grant to renovate his property, and then live in it. Although one may argue this is not likely to happen, the fact is this bill permits opening the door to such schemes.

Yet the story doesn't end here—The eligibility standards take even a more tortured twist. The bill states that when a multifamily project is granted approval for assistance only 20 percent of the units need be made available to lower income families. There is no income limit for those living in the rest of the units! In the past, the General Accounting Office has repeatedly told Congress that these so-called partially essential projects are the most expensive and inefficient use of housing subsidy.

Now for the final blow. Newly built units which are part of this program and are subject to a rent control system that—incredibly—provides proportionately greater tenant subsidies to moderate income families and less to very low income families.

(e) Quadruple subsidies.—It is a mistake for Congress to review any single federal housing program in isolation. Almost all federal housing programs are overlapping or attempt to patch past programs. Section 202 low interest loans build units for elderly persons assisted under Section 8. Farmers Home Administration low interest loans build units assisted under several types of housing subsidies. Section 8 new construction units receive guaranteed tenant income, lower-cost construction financing, and often have federally backed mortgage insurance.

This new program is no exception. In fact, this program could be coupled with at least three other forms of direct federal subsidy. In summary it is conceivable that an owner may rehabilitate a unit of housing and not put a single penny of his own money or be exposed to any risk of default. Here is how:

This bill allows grants to supply up to 50 percent of the cost of rehabilitating a unit yet if this is not enough an owner can apply for another grant for another 50 percent of the cost from any other federal program, including the Community Development Block Grant. Once built, a tenant living in such a unit is eligible to receive direct tenant subsidy available under a new Section 8 program created under this bill (see the "housing voucher" section of these views). If the unit is newly constructed, it is also eligible for tax-exempt financing. Finally, the mortgage can be insured by the federal government so that the owner faces little if any economic risk for default. How could the government be more generous!

(f) New construction.—Although the Administration does not request such authority, the bill permits grants to help build new units of housing despite the federal government's past proven inability to build inexpensive, low-cost housing.

Congress terminated new starts for the Section 8 program for this very reason. Even Congress—which rarely says no to extravagant uses of tax dollars—realized that the Section 8 new construction program was a horrible mistake.

Now just a few months after terminating Section 8, Congress is about to embark on a wholly new program.

Why does Congress so abjectly fail in its efforts to build new housing? Here are a few reasons:

1. New housing is built under the rules of Davis-Bacon, meaning that labor cost are usually far higher than labor costs for other types of housing

2. Congress never initially authorizes or appropriates enough to build a new unit . . . so the new units either run deficits—which future Congresses will be required to make up—or Congress has to fork over more money up front to get the project built.

3. Numerous federal rules govern construction of new housing, and compliance increases costs. For example, housing must be built according to standards written in the National Environmental Policy Act.

4. These rules discourage owner-developer participation. To offset this, HUD must offer other inducements to encourage participation . . . and that only increases costs. For example, under Section 8 construction, developers were required to invest little, if any, of their own money in the project.

There are other factors far too numerous to mention that drive up costs for building federal housing. Congress will live to regret a decision to use this program to provide units of new construction.

(g) Interferes with prudent Federal-State-local government relationships.—This bill contains a rather curious provision that if a state or local government chooses not to administer this new program (and I would think most would have every reason not to) then the Secretary of HUD *must* administer the program for the state. If a state or community has elected not to participate in the program, the federal government should have absolutely no business in initiating such a scheme in a local community.

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Some of those to whom I have expressed these concerns say we need not worry since "after all, it is only $300 million."

History mocks this contention. When section 8 began in 1974, it did so with an initial appropriation of just $42 million. In less than a decade, Congress committed $150 billion to this discredited program.

If the senate fails to kill this new program, in all probability a future Senate will have to . . . but only after billions will have been spent needlessly and foolishly as we have done so many times before. Why have we never learned from these lessons of the past?

2. Housing vouchers

Another new housing program included in this bill is the Modified Section 8 Existing Housing Assistance program.

This program is being sold as the efficient, modest, affordable and equitable way to replace the horrible Section 8 new construction program. That sort of sales job only increases my apprehension. After all, that is exactly the way Section 8 was sold to Congress as being efficient, modest, affordable and equitable way to replace the Section 236 program, which replaced the Section 221 program . . . all of which are in addition to the public housing program, the Section 235 program, rural housing, college housing, etc.

The question I have is this: Will those who are in the Senate ten years from now scratch their heads and ask what in the world were we thinking of when we created this monster?

I believe the answer is yes. Here is the way this program works. Public housing authorities will provide certificates (or vouchers) to eligible families to cover the difference between thirty percent of their adjusted income and the cost of a rental housing unit. A "payment standard" based on the rental cost of modestly priced standard quality housing of various sizes and types in a particular area would be used in combination with the family's income to determine the amount of federal subsidy to be provided. A participating family could choose a unit with a rent above the payment standard, but the family would not receive any additional subsidy and would absorb the additional cost. A family could also choose a standard quality unit with a rent below the payment standard and would be able to retain the savings. Thus, families would be able to decide for themselves how much they are willing to pay in order to live in better housing units or neighborhoods.

This program is being sold as the best way to reduce federal housing costs on the theory that it is cheaper than Section 8. Proponents argue that under Section 8, landlords have raised rents to match rent levels the federal government is committed to subsidize. Under the HUD proposal, the opportunity for tenants to negotiate rent levels should hold down rents and subsidy levels—in theory.

Sounds good, right?

Consider the following facts:

This program will only save money if the so-called payment standard is lower than the fair market rent standard. It is true that in proposing this program, HUD developed a payment standard that is likely to be lower than the currently used fair market rent standard.

But what did the Senate Banking committee do less than two months after the proposal was sent to Congress? It liberalized the payments standard, and made the subsidy more generous. Here's how:

First, it set payment and fair market standards at levels 13 percent higher than levels initially proposed by the Administration.

Second, it allows public housing authorities to set rents 20 percent higher than levels projected by the Administration. Then the bill allows PHAs to retain 50 percent of the rent savings resulting from tenants finding units below the payment standard . . . and tenants may have less overall incentive to find cheaper housing, and projected savings may not materialize.

It is interesting that this approach by the committee funds fewer units, but at subsidies substantially greater than the Administration proposes. Keep in mind this is only two months after the proposal was submitted. If the past is any lesson, future Congresses will enact more generous subsidies and expand the number of units provided.

Just take a look at the eligibility standards the bill provides. Although the committee used an eligibility standard that is now used for housing programs, literally millions of families will meet the proposed eligibility standard of fifty percent of median area income.

While millions are eligible, the initial Administration proposal proposed funding 80,000 units of housing with this new certificate

program. This is only a drop in the bucket of potential need as defined by the bill. There will soon rise a great clamor by public housing authorities and tenant organizations for more certificates, higher subsidies.

These certificates are extremely valuable. Many Americans pay more than 50 percent of their gross income for housing. But from the many eligible, the lucky few who receive assistance could pay only thirty percent of *adjusted* income for rent. To give such a gift to some eligible families but not others is grossly discriminatory. Congress is likely to resolve such a dilemma by agreeing to expand the program to all who qualify even though the taxpayers are already assisting some 13 million Americans. The bill, in effect, creates an ocean of demand and irresistible political pressure to fulfill that demand.

3. Mortgage Foreclosure Relief Act

By a vote of 11–7, the Banking committee, without benefit of hearings beforehand, approved the "unemployed and underemployed" Mortgage Default Assistance Program. This $750 million federal loan guarantee program provides a second mortgage for a homeowner to make his first mortgage loan payments—in other words, a government bailout for a homeowner unable to make monthly mortgage payments.

Like other federal housing assistance programs, this mortgage assistance program also is not targeted to the needy. No income or asset test is required to qualify; in fact a homeowner need only have "incurred a substantial reduction in income as a result of involuntary unemployment or underemployment." The definition of "underemployment" is left to the imagination, since the bill does not define it. In addition, no limit exists for the amount of the first mortgage which homeowners can have and still be assisted. For example, a wealthy homeowner with two homes, several cars and other assets could still qualify for this federal loan guarantee.

While I applaud the spirit which motivates senators to propose legislation to help those strapped by mortgage payments they are unable to make, this legislation is likely to do more harm than good for those intended to benefit from this assistance.

The program actually provides an incentive to mortgage holders to foreclose. The program requires lenders to indicate an intent to foreclose in order for homeowners to be eligible for the guarantees. Also the bill essentially encourages a debt-strapped homeowner to take on further debt only digging a deeper hole of debt. For example, a homeowner with a 13 percent mortgage for 80 percent of the average existing home price of $68,000 would be paying $604 per month. After being assisted by this program he would owe $819 per month, an increase of 35 percent in debt payments.

Moreover, the total loan value would be in excess of 100 percent of the purchase price. This greatly increases the probability of ultimate foreclosure on the home. The result—this program may actually create a federal *grant* to delinquent homeowners program, not simply a loan guarantee program. By increasing the total debt on the home beyond conventional bank lending standards, the risk of a direct federal outlay occurring is very high.

4. The Public Housing Authority Accreditation Commission

The Senate bill also contains a new accreditation commission—Section 304. The bill assigns to this privately appointed commission authority to set and administer standards for accreditation of public housing agencies. The commission would act as an independent entity empowered to formulate standards and administer accreditation for public housing authorities and at the same time be subject to the Department of Housing and Urban Development, subject to the HUD Secretary.

This arrangement is unworkable amd violates the appropriate and proper roles of the Department of Housing and Urban Development in overseeing the use of federal funds and to assist public housing authorities in their management. Although ostensibly under HUD, The Secretary would have no role in commission appointments, no control over use of personnel, no control over use of funds or involvement in establishing performance standards or participation in the accreditation processes. The Secretary could only approve or reject the final draft before it is published in the Federal Register. We already have an agency, HUD, with the authority, matched with responsibility and accountability to the President and Congress. Why do we want to diffuse the administration of public housing with little or no responsibility to HUD or Congress?

Furthermore, this proposal would at best interfere with the past progress made in developing an efficient, workable certification process currently in operation. The establishment of performance and accreditation standards is a tested, accepted procedure which has been developed by HUD and voluntary associations with the case of expert panels and individual professionals' assistance. It is difficult to predict the decisions of this commission—but one thing is clear; it would destroy the years of cumulative work in developing the new existing structure.

In addition, from a philosophical perspective, the commission creates bad federal precedent. Unlike many *study* commissions created by Congress, this one has both operating and regulatory functions without proper accountability. A privately appointed commission would regulate and set standards for federal assistance programs. This commission would also accredit other units of government and perform other "federal" functions and decision-making. Such a delegation is poor policy.

It is not surprising the National Association of Housing and Redevelopment officials (NAHRO) have voiced strong opposition to the proposal. This organization which works closely with public housing authorities across the country decisively rejects the proposal.

B. Expansion of existing programs

This bill also makes costly changes to current programs which will:

Result in outlays by 1988 $1.3 billion higher than the Administration projects even though the same number of units will be assisted. The committee bill establishes a new fair market rent system to determine subsidy levels. The effect will be to raise fair

market rents 13 percent above the Administration's proposed levels.

Not count food stamps as income in determining either eligibility for housing or the amount of housing subsidy to be received.

Prohibit the inclusion of housing assistance in determining eligibility for all other domestic assistance programs, an issue not properly within the jurisdiction of the committee.

Accelerate spending in the Community Development Block Grant Program by permitting local governments to draw down grant funds by demand rather than according to spending need.

These are just a few of the many undesirable changes to current programs included in this bill. But two issues deserve close scrutiny: (1) Proposed changes in income eligibility and, (2) Failure to repeal Davis/Bacon as it applies to federal housing.

1. Income eligibility

This bill makes a major change by adding a little noticed provision to exclude the value of housing assistance from tenant's income for the purpose of any other federal law. Although few in words, this change has extensive impact. The provision is clearly a substantive change to all domestic assistance programs including those not within the jurisdiction of the Banking committee. For example, this change affects the Aid to Families with Dependent Children (AFDC) program. This program is in the Finance committee's jurisdiction, and this change is opposed by both the Chairman and the Ranking Minority Member of the Senate Finance committeee. Let me quote from their December 8, 1982 letter to the Banking committee:

"The treatment of income is perhaps the most fundamental element of a public assistance program.

"Clearly, Congress made an important policy decision when it adopted the Administration proposal permitting states to count housing subsidies as income. Currently, two states (Oregon and North Carolina) have elected to utilize the offset. At least 10 additional states count housing assistance in the form of cash payments as income. Repealing the option would have a disruptive effect on these states and their AFDC programs. It would also be a violation of the principle this Committee has followed when considering changes to income maintenance programs; that in a time of scarce resources, federal benefits should be targeted to those most in need and that all resources available to the family should be considered when determining benefit amounts."

In addition to the exclusion of housing assistance as income for purposes of determining eligibility and assistance for other federal programs, the bill excludes the counting of food stamps as income in determining housing eligibility. Clearly, food stamps are in kind income that have cash value and should be included when determining housing subsidy eligibility.

2. Davis-Bacon

No only is the bill deficient for what it contains, it is also deficient for what it does not contain . . . namely, repeal of the Davis-Bacon Act.

Davis-Bacon sets government dictated wage and hour guidelines, and in almost all cases, substantially increases labor costs. The Davis-Bacon Act applies to federal construction projects, including the construction rehabiliation and maintenance of assisted housing projects.

Huge savings would occur if Davis-Bacon were repealed across the board, and particularly if federal housing were exempted. Consider the following:

The General Accounting Office, which advocates outright repeal, estimates that for each 100,000 newly constructed or substantially rehabiliated units of housing Davis-Bacon increases costs $160 million. Since 800,000 new Section 8 units have been built, cumulative savings had Davis-Bacon been repealed would be $1.28 billion . . . money that could have been saved, or alternatively, provide additional housing for the elderly or handicapped.

GAO recently studied HUD's Section 8 rental housing assistance program. In their report they stated, "varous federal, state and local officials and developers told us that the Act significantly increased the cost of the Section 8 new construction program in particular areas." Two areas specifically noted were Southern California where cost increases due to the Act were estimated from 5 to 15 percent and Pennsylvania where the estimated cost increases ranged from $1000 per housing unit to 15 to 25 percent for the entire project.

The National Homebuilders Association has estimated that at least 10 percent of the development costs of HUD programs will go toward higher construction and administrative costs because of Davis-Bacon. HUD funded housing aid covered by Davis-Bacon is approximately $4 billion. If we repealed Davis-Bacon for all HUD programs, including Section 8, new construciton, rehabilitation, and public housing programs for 1982, Homebuilders estimate a savings of federal dollars of $407.5 million in the first year alone.

Many other problems exist with Davis-Bacon, and it continues to be impractical to administer. The GAO charged that the Department of Labor has failed to consistently determine permissible Davis-Bacon wages, and have not developed an effective system to plan, control or manage the data collection, compilation and wage determination functions.

Davis-Bacon discourages the efforts of minorities to enter the construction crafts, says GAO. Davis-Bacon discriminates against minorities for three reasons: (1) the concept of a minimum rate, (2) high apprentice rates and (3) discouragement of minority contractors.

If there was no minimum rate, contractors could, in many instances, give up the expertise and expense of the skilled craftsman in favor of the inexpensive unskilled laborer. The Act discourages the use of minorities on federal construction projects. Apprentice rates are often set so high as to favor use of the more skilled journeyman over the apprentice. Minorities have used categories such as helpers and trainees as a major means of entry into the construction industry when not barred by Davis-Bacon.

The Department of Labor's disposition toward union rates discourages minority contractors, a vast majority of whom are open shop, from bidding on federal projects. This not only hurts minority

employment, but also contradicts federal procurement policies aimed at encouraging minority enterprises.

During testimony before the Senate Labor subcommittee in late April, Chicago housing authority commissioner, Renault A. Robinson, outlined the outrageous federal pay scales of housing authority maintenance employees.

"We did a survey last year," Robinson told subcommittee senators, "to determine how much overtime we paid to our 216 elevator mechanics. We spent, in a ten-month period last year in overtime alone—not counting the regular 40-hour week—$3 million. The highest employee took home $80,000 in overtime. Now if you figure that out * * * he NEVER slept * * * he just stood there in the elevator."

III. HISTORY OF FAILURE IN FEDERAL HOUSING PROGRAMS

Since 1937, more than $360 billion has been committed to federal subsidized housing; 90 percent of this enormous sum was obligated in the last eight years alone. Some 13 million Americans live in 5.6 million subsidized units. By this standard, Congress might appear to have been sensitive to the poor. On close inspection, however, the facts show federal housing is not only insensitive to the poor, but is also intellectually and fiscally bankrupt.

From 1937 to 1969, public housing was the major federal housing program. Construction of the units was federally financed, and local public housing authorities (PHA's) operated the units. Because of the low-cost financing, rents were reduced, and made available to the poor. No federal operating subsidies were used, and virtually all PHA's met their costs, and even established reserves to meet replacement and emergency costs.

Yet concerns were raised that this system created instant public housing ghettos, and that tenants paid too much of their incomes for rent. Rushing to the rescue, Congress enacted requirements that tenants were to pay no more than 25 percent of their income toward rent. While assisting tenants, this reduced the operating income of PHA's, so Congress created another new program—PHA operating subsidies designed to keep PHA's solvent.

This cure proved almost worse than the disease, however. By 1975, all large PHA's had exhausted their reserves, operating deficits mounted forcing Congress to enact larger and larger operating subsidies. We are to the point now where last year there were 383,000 units located in PHA's that were financially distressed to the point of bankruptcy.

PHA's have not rented units that have become vacant because they lack the money to do so. Incredibly, PHA's have told congressional committees that they are thinking about boarding up additional units that are currently occupied.

In the sixties, Congress was not just concerned about excessive tenant contributions to rent. It also wanted to stimulate private ownership of subsidized housing—in itself a noble goal. So Congress launched a series of rental subsidy programs that directly subsidized owners and landlords renting to low-income tenants. Again, the cure proved worse than the disease. The costs and inequities of these programs—known as Section 235, 236, and 221 programs—led

to critical reports by the General Accounting Office. Costs rose so high that a Presidential impoundment of the funds was ordered. Even so, today Congress still funds commitments made under these programs, and will continue to do so for the next decade.

In 1974, Congress approved a new housing program—Section 8. This program rose like a phoenix out of the ashes of the previously discredited programs. It was hailed as the solution to the nation's low-income housing problems. It was said the new program borrowed all the best features of earlier housing programs. But from the start, Section 8 proved ill-conceived, poorly managed, and scandalously costly. Its initial appropriation was modest—only $42 million. But in eight short years Congress committed to Section 8 more than $145 billion. Some one million units were built or leased, and 200,000 are awaiting occupancy. The Congressional Budget Office at one point estimated that a newly constructed Section 8 unit could have a lifetime cost of more than $500,000. Eligibility was so broad that 30 million Americans—a GAO figure—were eligible for the subsidy. Abuses abound. Published reports documented that Section 8 was a program for the "greedy, not the needy." Elaborate housing was built that lined the pockets of the developers at the expense of the poor. Other scandalous practices were reported:

Section 8 contracts were given to developers who, coincidentally, contributed significant campaign sums to reigning politicians.

Illegal aliens were housed in subsidized units.

Those with incomes exceeding Section 8's already broad eligibility standards lived in units built for the poor.

Newspaper and magazine headlines screamed "Billion Dollar Nightmare at HUD," "Very Poor Last in Line to Receive Federal Housing Assistance;" "Taj Mahal in New York: Simptoms of Rent Subsidy Headaches," "Housing and Politics: The Way It Works."

In 1982, Congress finally woke up to the horrors of Section 8, slashed funding for new commitments by 40 percent, and adopted program reforms.

Even with these desirable changes, the fact remains that in future years Congress will have to spend more money to bail out this program. Poor budgeting and dismal planning plagues Section 8 with a huge unfunded liability—estimated by the Congressional Budget Office to be as large as $50 billion—just to keep existing Section 8 units available to the poor.

IV. WHERE DO WE STAND TODAY? WHAT IS THE MAGNITUDE OF SPENDING THAT HAS ALREADY BEEN COMMITTED TO HOUSING?

Before embarking on new housing adventures, this Congress must understand exactly what our situation is today after this long history of Housing Programs. We need to understand what we have already committed and the obligations that have already been fastened on the taxpayers, both in direct, defined commitments as well as the other unfunded obligations that have been built into our structure.

A. Spending already committed to Federal housing

Of the $363 billion Congress has committed to federal housing programs, less than $90 billion has been spent. That means that if Congress did not commit an additional dollar to these programs, at least $263 billion is obligated to be spent over the next forty years . . . quite a legacy for future generations to pay.

Even these figures understate costs since they do not take into account the value of special tax advantages and federal financing often associated with housing programs, nor does it include future funding that will be necessary to finance deficits in housing already provided.

This year there are 5,680,000 units of housing which are directly subsidized—either in direct tenant subsidies or low-interest loans—by the federal government, housing about 13 million people.

In addition, another 364,805 units are not yet occupied for which Congress has previously obligated the government to build. Again, if Congress does not commit any additional money and only fulfills present obligations, three hundred and sixty thousand units of housing will be provided this decade.

Using President Reagan's 1984 housing budget assumptions, in the next five years, the government will commit another $25.9 billion in new long-term spending for programs within the Department of Housing and Urban Development. This additional $25.9 billion will provide financing for another 234,000 units. But that's not all. The Department of Agriculture's Farmers Home Administration proposes to commit an additional $22 billion to its low-income housing programs and that will provide an additional 212,000 units.

Even these budget figures do not tell the full story about future spending. These figures fail to reflect the overly optimistic assumptions of the President's budget in revealing the potentially large deficits in housing programs. *Current housing policy* makes it impossible for public housing authorities to meet their spending obligations and their only recourse is to seek assistance from the federal government. Also, as a result of Congress initially failing to provide adequate resources to finance the Section 8 and other housing programs, Congress will be forced to appropriate more money to keep already subsidized housing project in operation.

Contrary to the prevailing wisdom in Congess and the media, there have not been and will likely not be any actual budget cuts in housing programs during the first term of the Reagan Presidency. These are the facts:

Housing outlays have and will continue to increase each year during President Reagan's first term.

At least one million additional subsidized units will be occupied between 1981 and 1985.

Between 1985 and 1988, another 163,000 units are projected to be occupied (not counting increases in units provided through rural housing programs).

It is true that the spending totals proposed by the Administration and provided in the committee bill are much lower than those proposed during the 1970s. It is also true that in 1981, during the heyday of cutting taxes and spending during the so-called "Reagan

Revolution," the Congress did reduce by $23 billion the spending commitments proposed by President Carter for new housing and community developments to be made in 1981 and 1982. But these reductions will not show up in actual outlay reductions until 1984 and 1985. That is because as much as three years lapse between the time Congress appropriates funds, and the time the money is actually spent. While there were other spending restrain changes—increasing tenant contributions to rent, for example—these will take as long as five years to become fully effective.

The bottom line is this: The total savings realized from spending restraint will not reduce federal outlays during President Reagan's first term. But even with full implementation of all budget savings, federal outlays will still rise each year this decade

Incredibly, the "spending cuts" in federal housing programs constituted 52 percent of total budget savings in the first year of the so-called Reagan revolution that was to achieve a balanced budget by 1984.

Yet, I believe a strong case can be made that rather than reduce spending in federal housing, Congress and the Administration actually accelerated spending by authorizing additional financing subsidies for 74,000 new units of housing that otherwise would not have been built.

In sum, Congress has to date committed $363 billion to federal housing and almost all of that since 1970. Less than $90 billion has been spent to meet these obligations leaving future generations at least $263 billion to pay, assuming no additional commitments are made and that projected deficits do not materialize. Five million units are already subsidized . . . and by 1988, 6.3 million units will receive subsidy. And far from cutting actual spending, the Congress has, at best, only slowed future increases in spending.

B. Actual and potential unfunded obligations in Federal housing

A review of Commitments to Housing to date still does not tell the whole story of where we stand today on Public Housing. We must go further and understand HUD Budgeting Practices which have now created a huge unfunded liability. This has come about through three major practices: 1) Amendments, 2) Project Reserves and 3) Rent Supplement programs. They add up to a colossal faux pas in federal housing policy and add billions in unfunded obligations whose magnitude cannot be accurately measured.

1. Amendments

This innocuous sounding budget concept is the cover used to hide billions of dollars in cost-overruns run up in the construction and rehabilitation of federally subsidized units. The sums involved are large. Since 1978 alone, some $20.5 billion in "amendment funds" . . . have been committed by Congress. Additional billions will be needed in the future. In fact, this bill alone provides at least $3 billion in long-term spending for cost overruns. The need for amendment funds originated as follows:

In the past, Congress has told HUD that it must build a certain number of units, and theoretically Congress provides adequate authorizations to build those units. HUD then allocates the money to build the Congressionally determined number of units. Yet, these

authorizations in virtually every case have been insufficient to pay for the unit . . . but HUD has already committed the government to build the unit. Therefore, HUD has no choice but to ask Congress to fork up more money—the so-called amendments—to pay for the previously authorized unit.

Here is an example. Suppose HUD in 1980 entered into a contract with a developer for a Section 8 contract. HUD then reserves a certain amount of budget authority—that Congress mandated—for this project. For a variety of reasons, construction will not begin until 1982. In the interim, costs have increased, and the developer cannot build the project for the money initially reserved. So HUD has to reserve additional budget authority for these past projects, and the authority is reflected in requests to Congress in the form of additional amendments.

This policy is nothing more than a shell game. HUD submits and Congress approves the budget supposedly with enough funds to build a certain number of units. Often these estimates are underestimated . . . but it serves the political purpose of reducing—although deceptively—full program costs. Only much later will Congress pay the full bill for previously authorized units . . . once the commitments are made.

Second, knowing that amendment money is always available, there is little incentive for developers to reduce costs. Keep in mind that developers frequently are paid on the basis of a percentage of the costs of the total project . . . thus . . . the more dollars, the greater the percentage . . . the greater the need for amendments.

According to HUD, all of the 800,000 Section 8 newly constructed units have required additional amendment funds before they could be built. Therefore, repeatedly Congress has initially understated total costs and then deceptively escalated the authority allocated to these units by using future amendments to cover the actual costs.

2. Project reserves

Even with the cost-overrun amendments just described, total housing costs are still understated because Congress has not provided enough money to pay future costs. In fact, this bill proposed to begin the first wave of what will likely be a tidal wave of additional dollars that Congress will be asked to commit just to keep currently occupied Section 8 units operational. In part, Section 8 units are financed on the project reserve concept. HUD takes the first year costs of operating a project—total rents, maintenance, repair and other expenses—and multiplies these costs times the number of years for the contract, usually twenty years.

Yet over the course of a twenty year period, costs will rise. These additional costs are paid out of the project reserve. This reserve is the income derived from tenant contributions to rent. The theory underlying this practice originates from tenant rent contributions which will rise with inflation and along with other increases in operating costs.

Like so many theories that comprise federal housing policy, this project reserve theory is beginning to crumble. In reality funds used in some project reserves have been diverted to other than intended purposes, tenant income and their contributions to rent are not likely to rise with inflation. In addition, other economic as-

sumptions used to determine project levels may be overly optimistic.

For the first time this year, HUD was forced to request that Congress appropriate an additioanl $6.7 million in 1984 for project reserve funds. The Administration now projects that it will have to spend at least $75 million in each of the following four fiscal years to keep project reserves adequate and housing projects solvent.

Moreover, I am informed these figures also are underestimated . . . the potential for future project reserves required in each of the next 25 years may be large. HUD is now conducting an intensive review to determine the amount needed for project reserves.

The bottom line is this: Congress is foolish to begin even one, let alone seven new programs and to expand further funding for current programs when we face the prospect of spending billions just to keep the doors open for currently provided housing.

3. Section 236: Rental assistance program

Because of horrible mistakes made when the Section 236 rent supplement program began in 1968, the federal government faces a potentially huge unfunded liability that the federal government is responsible for, and eventually must pay.

Rent supplement and the rental assistance programs were created without an adequate mechanism to pay for future cost increases. Because most projects are insured by the federal government against default, the federal government is responsible to pay obligations if defaults occur. The effect of this deficiency is to expose the government to large risk in the future.

To its credit, the Administration foresaw this problem, and the 1984 budget proposed a solution that would reduce the government's risk. This solution, however, is not included in the Senate committee bill.

The Administration proposed ending the rent supplement rental assistance program, and converting all insured units to the Section 8 program. Specifically, the Administration wants to recapture all unspent funds in the Section 236 program, convert these funds in the Section 8 program, and use the converted funds to pay for currently non-budgeted rent and cost increases in the Section 236 units. After these costs were properly financed, HUD proposed Congress rescind the left-over funds. This conversion would apply only to insured projects; non-insured projects—those projects financed by state housing finance agencies—would be responsible for funding future cost increases that are above amounts funded by HUD.

The Senate bill rejects this approach. Instead, the bill requires HUD to offer increased subsidies to cover future cost increases for all rent supplement units . . . including both insured and non-insured projects. Because it is optional, not mandatory, for the project sponsor, few conversions would result and for a number of reasons. Yet while the committee bill creates the obligation, it does not provide enough money to meet this obligations. Depending on which economic assumptions are used, Congress in the next thirty years may need to commit $8 billion in new money to keep the rent supplement operational if conversions do not result. The committee bill authorizes $3.2 billion to meet this and—important to note—other future obligations. So under the committee bill, the un-

funded obligation by the government is at least $5.4 billion, and potentially more, depending on how much of the $3.4 billion authorized by the committee is spent on rent supplement and rental assistance amendments.

V. SUMMARY

Experience teaches us that public housing legislation leads to uncontrollable costs, waste, abuse and failure. Congress should never again pass new housing legislation without careful study, extensive hearings and full debate along with an extensive review of previous programs and critical evaluation of how they are working. This legislation has not undergone anything resembling such scrutiny.

The defects in this bill are only a few that I have identified after only a cursory review of its provisions. I could discuss at length other undesirable provision . . . the huge increase in lending authority for rural housing, the Federal Housing Administration and the Government National Mortgage Administration, the provisions for a new, capital subsidy and replacement fund, defects in the method for computing public housing operating subsidies, the inclusion of a new rural housing preservation grant program, the liberalization of the prohibition against providing assisted housing to illegal aliens . . . it seems like an endless list.

But my basic point is this. The bill cannot and should not pass bearing any resemblance to its present form. Why then are proponents arguing for its passage?

Here are a few arguments I have heard for the bill. "The Senate bill is better than the House bill." That's true . . . the Senate bill has half to two-thirds the spending levels in the House bill. But that alone is no reason to pass this bill. In fact, the opposite is true . . . it is reason to defeat this bill so that no version of the House bill will pass.

I have also been told, "We have to pass this bill because the House is holding hostage the International Monetary Fund bill until successful adoption of a housing authorization legislation." If true, the Senate should reject such flagrant extortion. Committing an additional $21 billion in new spending as the price to help international governments keep their loan agreements is absurd . . . and a price I am not prepared to pay.

I have also heard that, "We must pass this bill. After all, we have not had an authorization bill in two years." So what? Then there is, "If we don't pass an authorization, the Appropriations committee will do so anyway." Maybe . . . but again, no reason to pass an absurd bill now.

Finally, there is the argument that there are "urgent unmet housing needs to fill." Yes, it is true. But no matter how many billions Congress spends, it will never be able to fully satisfy those needs. And it surely never will if Congress continues to blindly and unthinkingly spend money on untargeted rehabilitation grants, Davis-Bacon, and subsidies for the wealthy.

It is easy to oppose legislation, and not propose constructive alternatives. What housing policies do I endorse? Here is what I think should be done immediately:

1. Full recapture of every unspent and uncommitted dollar within the Department of Housing and Urban Development and Farmers Home Administration.

2. Inventory every federal housing project in the United States and the territories. Determine which units that we are now paying for that are either uninhabited or in need of serious repair and determine how much is needed to bring each unit to an acceptable level of habitability, using local standards as the benchmark.

Over the next five years, as many as 100,000 units of public housing which the Federal Government is financing will be either uninhabited or should be abandoned. Why build new housing, or provide additional housing until these units are demolished, renovated or paid for?

3. Determine future levels of spending that will be needed to erase current or projected deficits. Right now, two-thirds of all units are located in public housing authorities that are near bankruptcy. What needs to be done to erase these deficits, replenish reserves, modernize their housing stock and make them energy efficient and less costly?

In the future, almost all long-term Section 8 newly constructed units will have to have additional appropriations beyond what is already committed. Using intermediate assumptions, what are the projected deficits? Can recaptured funds be held in reserve to pay these obligations?

4. Immediate repeal of Davis-Bacon and other regulations responsible for increased costs, including the National Environmental Policy Act as it applies to subsidized housing, the use of federal building code standards, etc.

5. Provide no additional subsidies until we know for certain we have reduced waste, targeted assistance to the needy, and are fully able to meet current and future obligations.

6. Of course, the best housing policy is one that would help permanently to lower interest rates. To keep interest rates down we must reduce the future deficits now projected. Rather than freeze spending levels, this bill actually increases spending and thereby does nothing to solve our country's basic economic problems and opens the door for future increases in interest rates.

According to rumors circulating as of May 16, 1983, numerous changes to the bill reported by committee have been proposed and/or made. To what extent, if any, these changes may alleviate these concerns, I do not know.

But these rumors emphasize that this bill should not be scheduled for floor debate. Unless very significant changes are made, the bill is unworthy of passage; but changes of the magnitude needed ought to be made in committee, not on the floor. With tight deadlines on many items of "must" legislaiton, the Senate should not be asked to rewrite this bill on the floor.

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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—COMPARISON OF BUDGET AUTHORITY AND OUTLAYS; CARTER BUDGET, REAGAN BUDGET, AND ACTUAL

[In million of dollars]

	1981	1982
Budget authority.		
Carter	$38,390.9	$38,209.0
Reagan	32,830.7	23,040.8
Actual	33,350.4	20,084.7
Outlays:		
Carter	13,304.9	15,507.4
Reagan	14,082.4	13,934.8
Actual	14,033.4	14,490.6

Outlay increases in 1981 were due primarily to interest rates increasing and remaining at substantially higher levels than projected for the balance of the year. For 1982 the Reagan Budget projected lower interest rates which did not fully materialize.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—SUBSIDIZED HOUSING PROGRAMS, UNITS ELIGIBLE FOR PAYMENT/TOTAL UNIVERSE INCLUDING PIPELINE, 1980–84

	1980		1981		1982		1983		1984	
	Units eligible for payment	Total universe	Units eligible for payment	Total universe	Units eligible for payment	Total universe	Units eligible for payment	Total universe	Units eligible for payment	Total universe
Public housing	1,192,000	1,372,611	1,204,000	1,428,810	1,224,000	1,359,006	1,250,000	1,326,006	1,255,000	1,285,877
Section 8:										
New/sub rehab	333,153	739,168	474,465	790,464	571,298	802,179	651,298	807,847	724,298	808,154
Existing	781,949	873,318	844,462	973,515	955,385	1,071,701	1,128,504	1,229,847	1,393,959	1,398,288
Rent supplement	164,992	164,992	157,779	157,779	153,355	153,355	80,000	80,000	15,000	15,000
Section 236	377,285	382,088	376,206	376,206	361,931	361,931	356,000	356,000	347,000	347,000
Section 235	219,452	227,652	240,539	264,739	241,927	263,173	232,000	232,000	213,000	213,000
Subtotal	3,068,831	3,759,829	3,297,451	3,991,513	3,507,896	4,011,345	3,697,802	4,031,007	3,948,257	4,067,319
Section 221 (BMIR)	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000
GNMA tandem:										
Non section 8 units	NA	NA	NA	NA	.....	10,600	8,000	14,800	14,800	14,800
Targeted tandem	5,600	49,000	18,800	57,900	39,900	74,900	53,900	78,700	73,900	78,700
Section 202 (original program)	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Total	3,187,431	3,921,829	3,429,251	4,162,413	3,660,796	4,209,845	3,872,702	4,237,507	4,149,957	4,273,819

Note.—Does not include 1.7 million units assisted under rural housing operated by the Farmers' Home Administration, nor Administration projection of 80,000 additional units in each year 1984–88.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—SUBSIDIZED HOUSING PROGRAMS, UNITS ELIGIBLE FOR PAYMENT/TOTAL UNIVERSE INCLUDING PIPELINE, 1985–88

	1985		1986		1987		1988	
	Units eligible for payment	Total universe	Units eligible for payment	Total universe	Units eligible for payment	Total universe	Units eligible for payment	Total universe
Public housing	1,238,000	1,245,877	1,206,000	1,206,000	1,171,000	1,171,000	1,161,000	1,161,000
Section 8:								
New/sub rehab	775,298	817,154	799,298	826,154	808,298	835,154	817,298	844,154
Existing	1,491,273	1,495,602	1,578,480	1,582,809	1,654,363	1,658,692	1,711,380	1,715,709
Rent supplement	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Section 236	346,000	346,000	345,000	345,000	344,000	344,000	343,000	343,000
Section 235	206,000	206,000	199,000	199,000	192,000	192,000	187,000	187,000
Subtotal	4,071,571	4,125,633	4,142,778	4,173,963	4,184,661	4,215,846	4,234,678	4,265,863
Section 221 (BMIR)	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000
GNMA tandem:								
Nonsection 8 units	14,800	14,800	14,800	14,800	14,800	14,800	14,800	14,800
Targeted tandem	78,700	78,700	78,700	78,700	78,700	78,700	78,700	78,700
Section 202 (original program)	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Total	4,278,071	4,332,133	4,349,278	4,380,463	4,391,161	4,422,346	4,441,178	4,472,363

Note.—Assumes enactment of Administration fiscal year 1984 in fiscal year 1985.

SELECTED INDICES OF PROGRAM COSTS—HUD HOUSING ASSISTANCE PROGRAMS

[In millions of dollars]

	Cumulative Sept. 30, 1982	1983	1984	1985	1986	1987	1988
Annual contributions (utilization of budget authority)	$232,905.2	$15,616.5	$7,966.0	$5,127.6	$5,280.4	$8,907.4	$3,041.7
Section 235 (obligations)	20,244.6	1,017.9	.....	.....	.....	.....	.....
Section 236 (obligations)	28,094.3	123.3	2.9	.....	.....	.....	.....
Rent Supplement (obligations)	12,415.8	46.0	20.4	.....	.....	.....	.....
Subtotal, subsidized housing	293,659.8	16,803.7	7,989.3	5,127.6	5,280.4	8,907.4	3,041.7
Section 312 operating subsidies (obligations)	7,460	1,281.6	1,636.5	1,524.9	1,481.4	1,469.0	1,550.4
Section 221(d)(3) BMIR (outstanding loan balance)	1,239.0	NA	NA	NA	NA	NA	NA
GNMA tandem (discount on mortgage sales)	1,656.0	650.1	603.4	355.4	127.5	.....	.....
FHA–GI/SRI (losses on sales)	3,101.8	240.0	253.0	432.9	269.4	269.4	269.4
Total, all programs	[1] 307,117.2	18,975.4	10,482.2	7,440.8	7,158.7	10,645.8	4,861.5

[1] Does not include $38 billion in low interest direct loans provided by Farmer's Home Administration.

ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING BUDGET AUTHORITY UTILIZED FOR AMENDMENTS (1978–88)

[In millions of dollars]

	Actual					Estimated					
	1978	1979	1980	1981	1982	1983 [1]	1984	1985	1986	1987	1988
Public housing	$274.1	$437.4	$956.0	$935.4	$372.1	$1,187.0	$45.0	.....	.....	.....	.....
Section 8	2,993.2	1,873.5	3,223.1	3,007.3	4,020.0	1,406.2	391.0	$99.0	$87.0	$75.0	$75.0
Total	3,267.0	2,310.9	4,179.1	3,942.7	4,392.1	2,593.2	436.0	99.0	87.0	75.0	75.0

[1] Represents amounts appropriated for 1983; public housing total includes $405 million provided for interest rate adjustments.
Note: 1978–81 data on a net basis; 1982–88 data on a gross basis.

RENTAL REHABILITATION GRANTS

Issue

HUD plans to replace the section 8 Moderate Rehabilitation and section 312 Rehabilitation Loans programs with a new rental rehabilitation grants program.

Perspective

The Administration is requesting $150 million for fiscal year 1984 to implement a new rental rehabilitation grants program. This program would provide grants to States and units of local governments for up to one-half of the cost of rehabilitating both single-family and multifamily rental properties. An estimated 30,000 rental units would be rehabilitated under the program in fiscal year 1984. This proposed rental rehabilitation program has the potential to be effective in upgrading a badly deteriorated rental housing stock, but without specific congressional guidance regarding program objectives and approaches, States and local governments will tend to design programs which (1) are targeted at housing units without adequate consideration for benefiting needy renter households, (2) have costs higher than necessary to improve the housing conditions of lower income households, (3) have the potential for significant displacement of lower income households, and (4) have little evaluation information available.

Based on past work, GAO believes that many communities eligible to receive rental rehabilitation grants would probably use low interest loans to rehabilitate single-family housing, although they estimate a greater need to rehabilitate and provide assistance to multifamily rental housing for lower income households. Eligible communities would have wide discretion to determine the type and level of rehabilitation assistance. Under the Community Development Block Grant (CDBG) program, which has many similarities to the proposed program, nearly half of the entitlement cities have undertaken some rental housing rehabilitation, but far fewer cities have had extensive recent experience in designing, implementing, or evaluating rental rehabilitation programs. The CDBG program has no explicit targeting criteria for rehabilitation and many communities emphasized rehabilitation of single-family housing, while reporting that renters were in greater need of assistance. Further, the most common subsidy mechanism used by CDBG communities was low interest loans, which has resulted in substantially higher average per unit rehabilitation costs than other financing methods such as grants and interest subsidy payments.

The rental rehabilitation grants program could encourage communities to allow unnecessary improvements in order for the rehabilitated units to be marketable and competitive with other nonsubsidized units. The higher rehabilitation costs associated with these improvements imply higher rents, which heightens the potential that low-income families will be displaced in favor of the more affluent. Rental rehabilitation grants would be used to subsidize the cost of rehabilitating rental properties at competitive market rents rather than at rents affordable to lower income households.

Under past rehabilitation programs there has been a tendency by communities to allow repairs beyond those necessary to bring substandard and deteriorating units up to code. The Administration estimates that the average cost to rehabilitate a rental unit is $10,000. Based on a recent survey of 64 CDBG communities, however, GAO found that the average rehabilitation costs per unit (excluding a few cities with very high costs) were less than $7,000 per unit. Although housing payment certificates would be provided to eligible low-income renters to help them afford the rehabilitated units, these units would not be affordable by many low-income households without housing certificates if sizable rehabilitation expenses resulted in substantial increases in rents. Early indications are that rehabilitation costs under the Administration's rental rehabilitation demonstration program are much higher than under CDBG. In the past, housing rehabilitation programs have been conditioned on the use of the housing for lower income households. Actual experience under the past programs, however, has shown that, in the absence of clear guidelines on targeting, many communities fail to assure that benefits go to lower income households.

Furthermore, program evaluation has been relegated a minor role in local rental rehabilitation programs. Our past research on the CDBG program has identified several problems relating to the reliability of data used to report program activities and beneficiaries. Unless program evaluation is made an integral component of any new rental rehabilitation program, evaluation information will be inadequate to effectively administer the program.

Questions

How would eligible communities be selected? Will housing need be the major factor?

What is the average funding level that eligible communities will receive and how many units will this enable them to rehabilitate? Are the anticipated funding levels for individual communities going to be sufficient to have a substantial impact?

What is the extent of Federal technical assistance that the Department anticipates will be needed to help communities design, implement, and evaluate programs?

Will there be any limits and/or controls established on the type and amount of rehabilitation assistance allowed on a given project to ensure that only substandard units are brought up to code at the minimum cost feasible?

Will project owners be required to pass on to the tenants any reduction in costs resulting from the rehabilitation assistance provided?

How will projects that are funded through the rental rehabilitation grants program be targeted to low-income families and what assurances are there that the rehabilitated units will remain available to low-income families for any reasonable period of time? Will low-income occupancy be a mandated requirement for a specific number of years?

Will project owners be prohibited from converting rehabilitated projects to condominium ownership? Is the Department considering establishing any requirements to recapture subsidies provided to

units occupied by other than low-income households or for any other reason?

What specific program performance criteria and reporting requirements will the Department impose to ensure that program objectives are met and that the program is being administered effectively? Will project owners be required to provide verified income and demographic information to local adminstering agencies? Will these agencies be required to submit annual reports to the Department showing what they have accomplished?

Will the Department report to the Congress on a periodic basis as to the overall progress of the program, including consolidated verified information from all State and local governments and information on costs, services delivered, and program beneficiaries?

What sanctions or penalties does the Department anticipate imposing for non-compliance with specific performance criteria and reporting requirements?

Contact: William J. Gainer, 426–1780.

ADDITIONAL VIEWS OF SENATORS RIEGLE, CRANSTON, SARBANES, DODD, DIXON, SASSER, AND LAUTENBERG

The Housing and Community Development Act of 1983, as reported by the Committee, is prudent legislation that would continue progress in meeting the nation's urgent housing needs. It was developed in a genuine, bipartisan effort to deal with complex problems and to accommodate diverse interests.

We believe the Senate should give this bill full and favorable consideration without delay. Certain provisions of the bill respond to conditions that require immediate action. Others would update the law to make needed improvements in the efficiency of housing and community development programs.

We regret that no housing legislation was enacted last year, and we are deeply concerned that, in the void, the Administration has tried to amend programs through administrative actions that are inconsistent with the intent of Congress. To prevent continued erosion of Congressional control over Federal housing and development policy, we believe that the Senate should act promptly on the Committee bill.

The Committee bill is a major improvement over the legislative proposals that the Administration submitted to the Congress in January. First, the Committee's rental rehabilitation and construction grant program, in contrast to the Administration proposal, recognizes that a balanced Federal housing policy must help produce new housing in those local markets that have a shortage of decent rental housing, particularly for elderly persons and large families. The new program would allocate $300 million by formula to States and localities for use as grants, loans or other forms of assistance. Under the program, localities could combine flexible financing tools with short-term rental assistance in order to expand the supply of rental housing available to lower income persons and families in their area.

Second, the "Unemployed Homeowners' Relief Act of 1983", Title VII of the Committee bill, would help thousands of unemployed homeowners avoid the tragic loss of their homes through foreclosure. Without requiring direct Federal outlays, the bill would provide up to $750 million in mortgage default assistance by partially guaranteeing private loans. Lenders would have appropriate incentives to carefully check the credit worthiness of applicants—they would have to bear 10% of any loss. Stringent criteria for eligibility, which were suggested by housing and finance industry groups, would be applied before any assistance were provided. The Act would encourage lender forbearance by directing Federal regulators to waive or relax existing requirements that inhibit forbearance by lending institutions. It would require all customary forbearance remedies to be exhausted before a guarantee could be provided. The Federal assistance would have to be repaid and would

only be available to homeowners whose credit record was good before they lost their jobs. Homeowners would be required to contribute as much as they can to the monthly mortgage costs, but not less than 5% of the amount due. Assistance would be temporary, covering up to 24 months plus 3 months arrears and requiring repayment to begin at the end of that period. Assistance could be provided only to homeowners who are involuntarily unemployed and who live in the home that is threatened with foreclosure.

Third, the bill continues a strong Federal commitment to community development. It reaffirms that the primary national purpose of the Community Development Block Grant program is to benefit low and moderate income people. The Committee bill would emphasize the extent to which lower income persons directly benefit from local community development programs by providing for improved record keeping and program evaluation. It rejects the Administration's proposal to include housing construction as an activity eligible for funding under CDBG—a change that would have jeopardized the program's future by diverting funds from needed development activities. The bill rejects the Administration's proposals to terminate the lump sum draw down and Section 108 loan guarantees. It instead reinforces these important tools and thus gives local communities greater operating flexibility to carry out their development programs and achieve the program's national objectives more efficiently.

Fourth, the bill rejects proposals that would weaken the UDAG program. It would continue funding at $440 million and would prevent UDAG funds from going unused when an insufficient number of applications are submitted by small cities.

The bill reaffirms the intent of the Congress that UDAG be administered as a national competition. That national competition has enabled the UDAG program to provide the greatest public benefit at the lowest cost. We have been troubled by reports that HUD has had plans to devolve UDAG underwriting responsibilities to Regional Administrators, the lowest level of political appointees. The Committee's bill unequivocally rejects such a change in the UDAG program and makes it clear that HUD area and regional offices should not have authority to interfere with a local community's right to have its UDAG proposals fairly considered in the national competition.

Fifth, the bill rejects Administration proposals for assisted housing that would have reduced "fair market rents", counted food-stamp subsidies as income and capped medical deductions at $300. We are convinced that the Administration's proposed changes would force families into decaying neighborhoods if they are to receive housing assistance and would effectively kill the housing voucher program in many communities. We believe the Committee bill provides a more realistic level of housing assistance to participating families.

Sixth, the bill responds to the critical housing needs of the elderly and handicapped with authorization for the construction of 14,000 new units of specially designed housing. It would permit leased housing assistance to be offered to additional low income families, although the number would be sharply reduced in response to intense budgetary pressures.

Seventh, the Committee bill evidences a clear determination to ensure that public housing is well-managed and maintained. The publicly-owned housing stock consists of 1.3 million units and represents a public investment of over $65 billion. The units are aging—some are over 40 years old. Many have been inadequately maintained because of a continuing shortage of funds. Failure to conserve this stock of low income housing would squander an important national asset. The bill gives priority to modernizing publicly-owned, low-rent units and to providing local housing agencies with adequate operating resources. The Committee does not anticipate construction of new public housing units in fiscal 1984 except for those projects that are already in the processing pipeline. We note that the so-called pipeline units are concentrated in a relatively few localities and that clearing the pipeline will not provide new low rent units in many communities where they are needed. However, we concur in deferring aid for new construction this year.

Eighth, the bill also authorizes levels for FHA insurance and GNMA guarantees of mortgage-backed securities that are needed to adequately support the housing recovery that appears finally to be underway.

Ninth, the bill rejects the Administration's proposal to slash funding of existing rural housing programs delivered through Farmers Home and to substitute an untested block grant to be administered by States. The Committee's action is a welcome change from its position last year and reflects a bipartisan effort to improve the nation's rural housing delivery system.

Although we support these and a number of other provisions, we nevertheless cannot endorse the Committee bill without reservation. We are particularly concerned that the rural housing title would make important changes affecting Farmers Home that were inadequately considered and could adversely affect residents of rural areas. While we are pleased that increased targeting provisions would encourage Farmers Home to provide more financing for manufactured housing, we are concerned that tighter targeting in the Section 502 Homeownership program may force an unsound reliance on alternative mortgage instruments to qualify low income persons. The result of that change could be an unacceptable increase in defaults above the current high level. We are also concerned about inflexible targeting in the Section 515 multifamily rental program, a reduction in energy standards and technical provisions related to bringing the Farmers Home housing programs onbudget. We agreed to include rural housing provisions only on a conditional basis. We believe that the Senate must have more information concerning the consequences of these proposals before they are considered on the floor.

Second, the bill would create a new "Commission on Accreditation" for public housing agencies. We believe that peer review and peer assistance are promising ideas for containing operating costs and improving public housing management. However, it is our view that this provision in its current form raises serious legal and administrative questions that should be resolved before floor action is taken.

Finally, the Committee bill does not address problems that have emerged in the nation's secondary mortgage markets. Congress es-

tablished the major secondary market instititions—FNMA, GNMA, and FHLMC—to stabilize and expand the flow of credit into housing. Since the last several years of economic turmoil have seriously disrupted the nation's housing finance system, we believe that the Congress must place the problems of the secondary mortgage market very high on its agenda. The secondary market must be greatly strengthened and expanded over the next few years if the U.S. housing industry is to fully recover from its worst slump since the Great Depression and if the nation's growing population is to have an adequate supply of housing credit. In our view, this year's housing bill should include those modest measures that would strengthen the ability of existing secondary market agencies to support the housing recovery. More extensive proposals for the long-term restructuring of the secondary mortgage markets should, we believe, be the subject of major hearings during the session of Congress.

The Committee is now giving careful consideration to these and other provisions of the bill. We expect that the Committee will soon agree on a bi-partisan package of refinements that will resolve many of our remaining concerns. We therefore urge that this legislation be promptly considered and approved by the Senate.

DONALD W. RIEGLE, Jr.
ALAN CRANSTON.
PAUL S. SARBANES.
CHRISTOPER J. DODD.
ALAN J. DIXON.
JIM SASSER.
FRANK R. LAUTENBERG.

ADDITIONAL VIEWS OF SENATORS D'AMATO, DODD, CRANSTON, RIEGLE, HAWKINS, SARBANES, LAUTENBERG, AND HEINZ

When the Congress enacted the "Urban Property Protection and Reinsurance Act of 1968," it found that the deterioration of the inner city areas of many of our cities was posing a serious threat to the national economy and that this deterioration was being accelerated by the inability of businesses and residents of these blighted areas to obtain adequate property insurance coverage:

> "the vitality of many American cities is being threatened by the deterioration of their inner city areas; responsible owners of well-maintained residential, business, and other properties in many of these areas are unable to obtain adequate property insurance coverage against fire, crime, and other perils; the lack of such insurance coverage accelerates the deterioration of these areas by discouraging private investment and restricting the availability of credit to repair and improve property therein; and this deterioration poses a serious threat to the national economy. . . ."

Unfortunately, this statement is as true today as it was in 1968. President Reagan's support for the creation of urban enterprise zones implicitly recognizes the need to devise special, national solutions to combat the deleterious effects of urban blight. Clearly, businesses wil not locate in these areas if they cannot secure adequate insurance protection for their properties at reasonable rates.

Therefore, we continue to support the federal crime insurance program and the federal riot reinsurance program as two programs that are well designed to fill the need for affordable property insurance in our urban areas and are disappointed that the Committee failed to adopt an amendment to reauthorize them, by a 9–9 tie vote.

While several studies have documented both the unavailability and unaffordability of basic property insurance in many of our urban areas—including studies by the Federal Insurance Administration of crime and fire insurance in 1970 and 1978, respectively—no comparable work has been presented to the Committee to demonstrate that the problems no longer exist. We simply don't understand how one can expect to experience a renaissance in our blighted urban areas if thousands of small businesses and homeowners in our high crime areas cannot secure insurance against loss property due to criminal activity.

It has been stated that the federal crime insurance program is not a national one, yet presently 27 states and the District of Columbia are enrolled in it. Nineteen jurisdictions make federal riot reinsurance available.

Another reason cited for terminating the programs is the dramatic dropoff in the number of companies that purchase federal riot reinsurance—from 300 in September, 1981, to 19 during fiscal year 1983—and a decline in the utilization of the crime program—from approximately 81,000 in 1981 to 59,000 today. Not surprisingly, these declines have coincided with Jeffrey Bragg's tenure as Federal Insurance Administrator. Mr. Bragg has increased the riot reinsurance premiums by 1000 percent over the past two years and the crime premiums by 50 percent. During this time, the Federal Insurance Administration has prohibited any marketing or promotion of these programs. Mr. Bragg, in a recent interview with the *National Underwriter,* stated that, "When I came here I thought it would be easier than it was to convince Congress to terminate these programs (the riot and crime programs). I've learned that to do what I wanted to do, I would have to do it administratively through the authority vested in my position." We are unaware that any administrative authority exists to terminate these programs that were established by the Congress, but this statement makes it easy to understand why policy sales have declined over the past two years.

As to the potential for the sale of more policies, it is well worth noting the comments made by the Superintendant of the New York Insurance Department, James Corcoran, at the Banking Committee hearings. He said that, "extensive utilization of the program in New York is primarily due to the efforts by the New York State Insurance Department to publicize the existence of the program." He concluded that, "I have no doubt that if other states were to adopt a program, similar to New York, of publicizing the benefits of federal crime insurance to the consumer, that you would see a higher utilization of the program in other States." This view is buttressed by two GAO reports that found that many people in the eligible areas did not know the program existed and, if they had, would have purchased the insurance.

Mr. Bragg also has alleged that there no longer is a need for the program. At the Banking Committee hearing, he stated that "it is clearly within the resources of the private sector and the State regulatory authorities to provide for each State. . . ." Again, the real world experience of Superintendant Corcoran is instructive. He testified that the annual "premium for a residential burglary and theft policy in the amount of $10,000 obtained from a licensed private insurer for a person living in Brooklyn, N.Y., would be $220 (almost twice the cost of the $120 federal crime insurance premium). . . . However, this rate is largely unused by the insurance industry. . . . Most companies would be unwilling to insure these individuals even at that rate." In short, Mr. Corcoran confirmed the underlying basis for the federal crime insurance program—that crime insurance is either unavailable or unaffordable in high crime areas in many of the urban centers of this Nation.

In 1982, when this Committee passed the D'Amato-Dodd amendment to reauthorize both the crime insurance and riot reinsurance programs, the bill called for a study by the Comptroller General on the marketing of crime insurance to residents of high crime urban areas. The 1983 D'Amato amendment would have required such a study also. Frankly, we think it makes far better sense to deter-

mine why a program isn't working completely as intended before considering its elimination. Absent such a study, we don't know whether the availability and affordability problems have cleared up, or whether the program has not been marketed properly.

We hope that the Congress will reconsider this matter and continue the crime insurance and riot reinsurance programs until such time as a responsible and comprehensive study shows that there no longer is a need for them.

ALFONSE, M. D'AMATO.
CHRISTOPHER J. DODD.
ALAN CRANSTON.
DONALD W. RIEGLE, Jr.
PAULA HAWKINS.
PAUL S. SARBANES.
FRANK R. LAUTENBERG.
JOHN HEINZ.

ADDITIONAL VIEWS OF SENATORS LAUTENBERG AND D'AMATO

As our votes to favorably report the Housing and Community Development Act of 1983 indicate, we are in support of moving the legislation to the Senate floor. It is important that the Congress adopt a housing bill this year.

Unfortunately, the Housing and Community Development Act of 1983 includes a provision in Section 101, subsection 122 (c)(4) and (d)(6) which preempts local authority by prohibiting rent regulation on properties rehabilitated or constructed with assistance provided under this section. We object to this provision.

Rent control is a local issue. This is a position publicly shared by the U.S. Conference of Mayors, the National League of Cities and the Secretary of Housing and Urban Development, Samuel Pierce. Rent control is a controversial issue, particularly in communities with low vacancy rates and rent levels which test the means of many of our citizens.

It is not necessary, perhaps not possible, to take a simple pro or con position on rent regulation. The question is whether it is the Federal Government's role to apply a general prohibition as the price of a local or state government receiving federal assistance for housing rehabilitation.

The General Accountig Office report submitted to this Committee on March 9 pointed to the potential displacement of existing tenants in housing rehabilitated under programs such as that authorized in this bill. In one city, they found that 60 percent of the tenants were displaced. The Committee has gone to great lengths to limit displacement, but the lifting of local rent regulation will work counter to the protective provisions adopted. We are especially concerned that the Committee's action on rent control could result in displacement of tenants in our states. It is for this reason that we object to federal preemption of rent control as contained in this legislation.

FRANK R. LAUTENBERG.
ALFONSE M. D'AMATO.